

# **SBC Options appraisal**

## **SBC Contracts and Roads**

**January 2016**

# Table of Contents

<b>1</b>	<b>Executive summary</b>	<b>3</b>
1.1	Background	3
1.2	Work done to date	3
1.3	Drivers for change	4
1.4	Options	4
1.5	The Client function	5
1.6	The Provider function	5
1.7	LLP as Client/Provider	6
1.8	How does an Internal Restructure meet the drivers for change?	7
1.9	How does an LLP meet the drivers for change?	7
1.10	Key elements common to both models	8
1.11	Appraisal of options	8
1.12	Conclusion and recommendation	9
<b>2</b>	<b>Introduction</b>	<b>10</b>
2.1	Background	10
2.2	Work done to date	11
<b>3</b>	<b>Drivers for change</b>	<b>12</b>
<b>4</b>	<b>Current service model</b>	<b>13</b>
4.1	Legal	13
4.2	Financial	14
4.3	Customer	15
4.4	Governance	15
4.5	Flexibility	15
<b>5</b>	<b>Scope of works to be included</b>	<b>17</b>
5.1	Scope	17
5.2	Service budgets for services in scope	18
<b>6</b>	<b>Preferred delivery models</b>	<b>20</b>
6.1	Option 1: Internal restructure - as Client/Provider	20
6.2	Option 2: Limited Liability Partnership (LLP) – as Client/Provider	23
<b>7</b>	<b>High level financial assessment and implications</b>	<b>28</b>
7.1	Introduction	28
7.2	Assessment and implications	28
7.3	Achieving savings	30
<b>8</b>	<b>Options appraisal</b>	<b>31</b>
8.1	Overview	31
8.2	Options selection criteria	31
8.3	Options appraisal	34
<b>9</b>	<b>Conclusion and recommendation</b>	<b>40</b>

# 1 Executive summary

## 1.1 Background

On 15 May 2015, Executive Committee recommended:

- A review of the operating model of the Council's wider roads service to ensure maximisation of services to the Borders and continued ability to operate in the external market place
- That any model be capable of interfacing with the ELBF proposal

On 20 October 2015, progress was reported back to the Administration Policy Working Group and the Group concluded that given the tight timescales for arriving at the most advantageous operating model the focus be placed on evaluating the options of:

- **Internal Restructure**
- **Limited Liability Partnership (LLP)**

The following key principles were set out and agreed to be 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.

## 1.2 Work done to date

A series of workshops were held between October 2015 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.

Guided by the key principles, the workshops focussed 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.

### 1.3 Drivers for change

The key drivers for change were identified as:

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

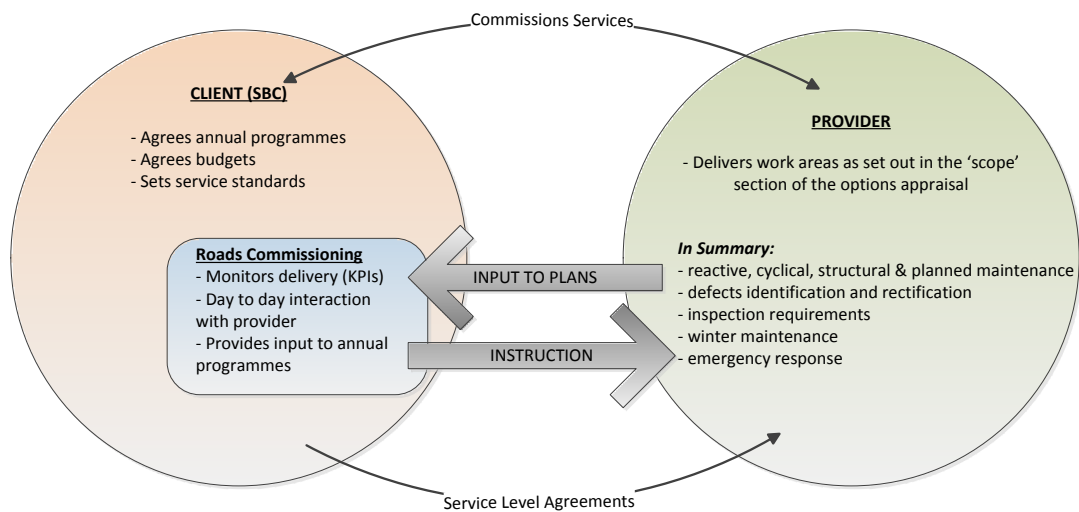
### 1.4 Options

#### Client/Provider set-up

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

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

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



Benefits of the new arrangement include:

- Engagement, albeit in a limited fashion with ELBF or any other potential model that may be promoted nationally
- Provision of a one-stop-shop for customers (i.e.) 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

## 1.5 The Client function

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

<b>CLIENT</b>	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 FBC.

## 1.6 The Provider function

The Provider function will focus on the operational delivery of Roads specific works. The delivery areas are shown in detail in the full report, but in summary the Provider will deliver:

- Reactive, Cyclic, Structural and Planned maintenance
- Inspection requirements
- Defects and rectification

- Winter Maintenance
- Emergency Response

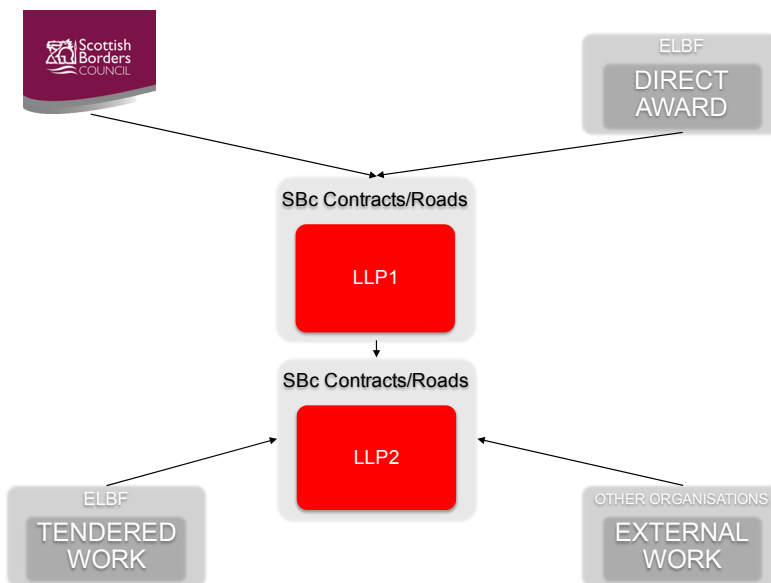
The Client defines the outcome based levels of service, performance criteria and the budgets for the required works. And to these standards and budget constraints, the Provider will:

<b>PROVIDER</b>	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 (i.e.) 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

### 1.7 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:



## 1.8 How does an Internal Restructure meet the drivers for change?

An Internal Restructure as a client/provider set-up would meet the drivers for change as follows:

1. **Legal**  
**Driver: Legally compliant**  
Internal restructure would not give the services the legal freedom to increase their external contracts income
2. **Financial**  
**Driver: Financial pressures, income pressures. Opportunities to develop commercial operations** Cost saving initiatives can be applied to the internal restructure
3. **Customer**  
**Driver: Customer service/one-stop-shop. Current disconnect between repair and maintenance, lack of clarity on who to contact to resolve issues**  
One-stop-shop - internal restructure 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**  
**Driver: Control is retained by Scottish Borders Council**  
Council retains 100% control as an internal service
5. **Flexibility**  
**Driver: Scottish Government agenda (eg) changes to Roads authorities including ELBF**  
Internal restructure has ability to exploit any ELBF offers of work for SBC

## 1.9 How does an LLP meet the drivers for change?

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 would meet the drivers for change as follows:

1. **Legal**  
**Driver: Legally compliant**  
LLP would give the services the legal freedom to increase their external contracts income
2. **Financial**  
**Driver: Financial pressures, income pressures. Opportunities to develop commercial operations**  
Cost saving initiatives can be applied to the LLP including a cultural shift. Increased external income allows the Council to reduce net costs
3. **Customer**  
**Driver: Customer service/one-stop-shop. Current disconnect between repair and maintenance, lack of clarity on who to contact to resolve issues**  
One-stop-shop - internal restructure 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**  
**Driver: Control is retained by Scottish Borders Council**

Council retains **100% ownership** and exercises control through the new Governance structure as a TECKAL compliant organisation

5. **Flexibility**

**Driver: Scottish Government agenda (ie) changes to Roads authorities including ELBF**

LLP has unlimited ability to exploit any ELBF offers of work for SBC

## 1.10 Key elements common to both models

### 1.10.1 Improved Planning and Maintenance Scheduling

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

### 1.10.2 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.

### 1.10.3 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.

### 1.10.4 Residual Neighbourhood Operations Functions

The remaining 'Environment' within Neighbourhood Operations will be reviewed as part of a separate process with the objective of maintaining, or improving, current performance.

## 1.11 Appraisal of options

Both options were scored against the key drivers for change and the scoring resulted in a score of 280 for the Internal Restructure and 407 for the LLP:

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



## **1.12 Conclusion and recommendation**

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

- 1. The Client/Provider arrangement is the best set up for a redesigned Roads service**
- 2. The Limited Liability Partnership (LLP) model is the best model for the redesigned services**
- 3. A full Business case is developed for the LLP model within the next 3 months**

**It is recommended that a Full Business Case is developed within 3 months that 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 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.

## 2 Introduction

### 2.1 Background

The 'Edinburgh, Lothians, Borders & Fife Roads Collaboration Programme (ELBF proposal) and SBC roads services' report approved by Executive Committee on 15<sup>th</sup> May 2015, recommended:

- A review of the operating model of the Council's wider roads service to ensure maximisation of services to the Borders and continued ability to operate in the external market place
- That any model be capable of interfacing with the ELBF proposal

Roads collaboration, or alternatively a re-structuring of roads authorities, is high on the Scottish Government's agenda. If local authorities don't positively engage there is a significant risk of the government imposing its own solution. Under ELBF proposals roads services under consideration for sharing cover:

1. Asset Management
2. Joint procurement
3. Flood Risk management
4. New Roads & Streetworks Act (coordinating roads projects)
5. Weather Forecasting
6. Traffic Signal Maintenance
7. Road Safety
8. Structures (bridges etc)
9. Street Lighting
10. Training
11. Packaging of Roads Maintenance Contracts
12. Rock Salt and Gritting

Progress on the roads review was reported back to Administration Policy Working Group on the 20th October. The Group concluded that given the tight timescale for arriving at the most advantageous operating model for the Council's roads services that focus be placed on evaluating the options of:

1. Internal Restructure
2. Limited Liability Partnership (LLP)

The following key principles were set out and agreed to be 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

## **2.2 Work done to date**

Between October and mid November 2015 a series of workshops were held with senior managers from across the roads services, with human resources, finance, business transformation and union representatives.

The purpose of the workshops was to discuss current roads provision and how best to set up provision for the future.

Guided by the key principles, the workshops focussed on developing the:

- 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/concerns both from managers and trade unions, and possible mitigations were discussed.

### **2.2.1 Governance of programme**

Progress was overseen by the Alternative Service Delivery Models Programme Board who approved the criteria and methodology for the appraisal of the preferred delivery models.

The Board set out the following timeline that is currently being worked to:

- Options appraisal of preferred delivery model formally approved by Admin Policy Working Group – February 2016
- Business case developed – February to May 2016
- Business Case approved – June 2016
- Implementation – July to September 2016
- Go Live – October 1<sup>st</sup> 2016

### **3 Drivers for change**

The key principles were used as the basis to develop the key drivers for change, and then the key tests of those drivers, as set out below:

#### **Legal**

*Driver: Legally compliant*

*Tests:*

1. *Delivers a fully legislatively and legally compliant service?*

#### **Financial**

*Driver: Financial pressures, income pressures. Opportunities to develop commercial operations*

*Tests:*

2. *Delivers best value in performance for SBC?*
3. *Provides a mechanism for SBC to achieve financial efficiencies?*
4. *Enables the entity to maximise income/profit opportunities?*

#### **Customer**

*Driver: Customer service/one-stop-shop. Current disconnect between repair and maintenance, lack of clarity on who to contact to resolve issues*

*Tests:*

5. *Delivers the service change required?*
6. *Delivers a model acceptable to public, Members and external clients?*
7. *Safeguards essential services (eg) winter maintenance and emergency service?*
8. *Delivers improved outcomes for customers/users?*

#### **Governance**

*Driver: Control is retained by Scottish Borders Council*

*Tests:*

9. *Ensures that control is retained by SBC?*
10. *Ensures that scrutiny is retained by SBC?*
11. *Ensures that service levels are defined by SBC?*

#### **Flexibility**

*Driver: Scottish Government agenda (eg) changes to Roads authorities including ELBF*

*Tests:*

12. *Maximises the benefits to Scottish Borders Council resulting from changes to Roads Authorities e.g. ELBF?*
13. *Flexible enough to accommodate other services at a future date?*

## 4 Current service model

The Roads Service is currently undertaken by four sections:

- Neighbourhood Operations  
Undertake the planned, cyclic routine and reactive maintenance funded by the revenue budget.
- Asset Management  
Manage the asset, promote and design structural maintenance works funded by the roads capital allocation and also planned maintenance works funded by the revenue budget
- SBC Contracts  
Undertake structural maintenance as directed by Asset Management and carries out civil engineering work from the Council's capital programme
- Network Management  
Manage road usage and occupancy plus road safety and traffic management

### 4.1 Legal

Local Government legislation sets controls on the level to which a local authority - or any of its departments - can enter into trade agreements whereby the Council provide goods and services externally.

Clearly there are many occasions where councils do provide services to the public at large and charges for those services. These include services as diverse as car parking facilities to the provision of trade waste collections and many more in-between.

There are also many occasions where a council department will provide services either to the Council as a whole, or another council, or indeed to another department within the Council and where, for reasons such as Best Value, will actually compete for that work in a competitive environment. Where a department receives significant amount of income from such activities (as compared to the revenue income for the Council as a whole) it is recognised as a Significant Trading Operation (STO) and requires to keep separate trading accounts.

SBC Contracts is identified by SBC as a STO and is the only section of SBC so identified.

By virtue of the Power of Wellbeing, a Local Authority is able to enter into trade arrangements with external parties to the extent that is using no more than genuine surplus capacity. In other words, an authority should not legitimately retain "surplus" capacity solely for the purpose of trading externally.

Legislation does not establish the volumes within which an authority can trade under the Power of Wellbeing, but it is commonly agreed that any significant level of external trading income could be open to challenge.

SBC Contracts is resourced, in terms of its manpower and equipment, to be able to provide a significant level of external service and to assist in extreme weather events.

It has therefore the capacity to create revenue streams which could be utilised both to improve the service it provides and to further contribute to the revenue budget of SBC as a whole.

Unfortunately, that capacity cannot legally be used to trade externally while SBc Contracts remains an internal part of the Local Authority itself and that opportunity would therefore be lost.

### **Power of Wellbeing**

***By virtue of the Power of Wellbeing, a Local Authority is able to enter into trade arrangements with external parties to the extent that is using no more than genuine surplus capacity.***

Legislation does not establish the volumes within which an authority can trade under the Power of Wellbeing, but it is commonly agreed, and understood, that any significant level of external trading income could be challenged by this limitation.

## **4.2 Financial**

The present arrangements have recurring financial pressures in both SBc Contracts and Neighbourhood Services Operations.

Within SBc Contracts there is pressure to achieve the surplus target, which is largely due to the competitiveness of the external market and the margins available.

This also has an impact on Neighbourhood Services which has an income expectation of £650K from SBc Contracts. This figure is made up of depot rent and through the use of Neighbourhood Services plant and labour.

Within Neighbourhood Services Operations there is a recurring budget pressure and an income pressure.

Opportunities to develop commercial operations are limited by legislation and also by the limited flexibility to operate commercially within the external market place.

Within the present structure the entering into commercial joint ventures in which risk and reward are shared, is a slow and cumbersome process, making it more difficult to be responsive to fresh commercial opportunities.

### **4.2.1 External income**

The "Roads" element of Neighbourhood Operations undertakes winter maintenance for Amey and street lighting installations on new housing developments.

SBc Contracts' external income is sourced from the following areas:

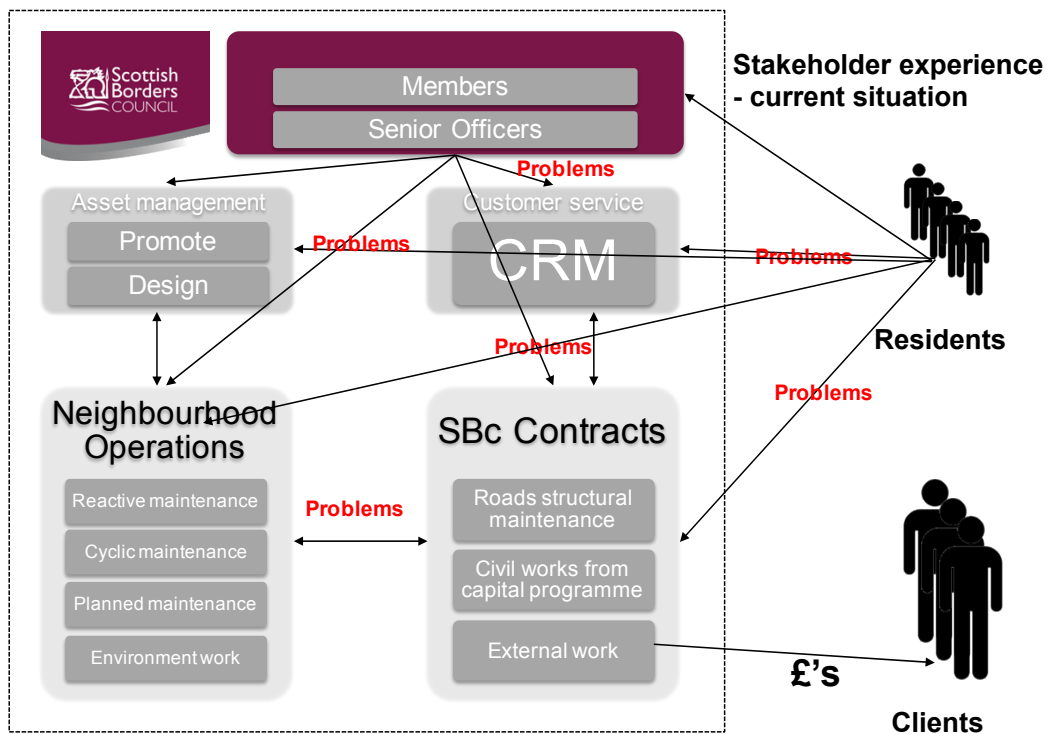
- Surfacing and surface dressing
- Road and Bridge works
- Civil Engineering works
- Groundworks
- Bond Coat application
- Traffic Management
- Sign Manufacture
- Private Driveways

### 4.3 Customer

There is currently a disconnect in the delivery of roads services by having them spread across two service areas. These service areas have conflicting priorities which can impact on the other. As a consequence of this there is difficulty in demonstrating that there is a cohesive roads repair and maintenance programme.

For the resident of Borders who wishes to register a problem, there is not a clear route to go through. Problems are routed through Members, to Customer Services, to Neighbourhoods, and direct to SBc Contracts.

Current customer service delivery model:



### 4.4 Governance

Current governance arrangement for SBc Contracts has restricted decision-making at committee level.

There is no documented SLA for roads repair between Neighbourhood Operations and the Council.

As part of this review, the new reorganisation will be designed to guarantee that there is clear and transparent governance and scrutiny of the services.

### 4.5 Flexibility

#### Scottish Government agenda (eg) changes to Roads authorities including ELBF

As a consequence of the Christie Commission, published in June 2011, public bodies across Scotland were encouraged to explore the sharing of services to maximise resources, deliver efficiencies and improve outcomes for the customer. In the context of this, council roads officers from Edinburgh, Lothians, Borders and Fife met to

discuss roads provision. This formed the basis of developing an ELBF proposal where Roads provision/delivery could be shared across these 4 regions.

In June 2012 the National Roads Maintenance Review (NRMR) was published. Under Option 30 it was recognised that:

“Delivery of roads services in each of the 33 roads authorities varies, with a wide range of management arrangements. It was further stated that current arrangements are likely to be unsustainable and as such, there appeared to be wider opportunities to improve the delivery of road services over the short, medium and long term.”

In short, the NRMR recognised the shared services exploratory work being undertaken in some authorities (such as ELBF) but rather than rely on this it reserved the right to explore the optimal delivery model for road maintenance services across Scotland. In support of the NRMR, in December 2013 the Improvement Service established the Roads Collaboration Programme to explore the opportunities to share services across the Council's and Transport Scotland.

Politically, whether ELBF is the preferred way forward or whether a solution will be imposed by Scottish Government through the NRMR is unclear. What is clear is that the operating model for Roads within SBC should be capable of aligning with either of these outcomes.



## 5 Scope of works to be included

The Alternative Service Model Programme Board were tasked to look at the Roads Service. The Roads Service is regarded as a critical strategic need and therefore we have not taken the scope beyond the following. (There is a separate process reviewing the future delivery of the wider Environment operations).

### 5.1 Scope

The work areas shown below will form the basis of the 'Roads Service', sitting in the provider side:

Work area		Current service area
1	Surfacing – dressing	SBc Contracts
2	Surfacing – resurfacing	SBc Contracts
3	Surfacing - 'other'	SBc Contracts
4	Traffic management	SBc Contracts
5	Sign shop	SBc Contracts
6	Bond coat (Tanker hire)	SBc Contracts
7	External works	SBc Contracts
8	Internal works: Major works for SBC departments	SBc Contracts
9	Cyclical maintenance: drainage (gully emptying)	NS Ops
10	Cyclical maintenance: grass cutting road verges	NS Ops
11	White lining	NS Ops
12	Winter service	NS Ops
13	Minor patching	NS Ops
14	Depot maintenance	NS Ops
15	Bridge maintenance	NS Ops
16	Street lighting	NS Ops
17	Emergency response (out of hours)	NS Ops
18	Langlee recycling	NS Ops
19	Flooding and Emergencies	NS Ops
20	Roads and bridges asset management	Infrastructure
21	Design – Asset (Road maintenance design)	Asset
22	Support area: Finance	Place Dept
23	Support area: Admin	Place Dept

In addition to these work areas, the Provider will, on a frequent or day-to-day basis, require to commission certain services from the Client e.g. the Provider may have an opportunity to undertake external design and build activities, but does not retain this design expertise in-house. Instead it would commission this expertise from the Client.

The service areas shown below are not 'Roads' specific. They are used by other SBC departments and will continue to be used by other SBC departments – however, their services can and will be commissioned by the Provider as and when required:

Work area		Current service area
24	Fleet	Fleet
25	Design (civil engineering)	Design
26	Roads network management	Infrastructure

## 5.2 Service budgets for services in scope

The table below summarises the cost budgets for 15/16 that relate to the services that have been considered for the options appraisal. The table also shows how many full-time equivalent posts to be included in the reorganisation:

SB Contracts & Roads Budget and Headcount Summary		
Services	Gross Cost Budget 15/16	Headcount
	£	FTEs
Neighbourhood Roads expenditure	10,059,693	154.5
SBC Contracts expenditure	12,909,162	58
Total expenditure	22,968,855	
SBC Contracts income	(13,240,767)	
<b>Net Cost to SBC</b>	<b>9,728,088</b>	<b>212.5</b>

Although SBC Contracts only has a surplus budget of £332,605 it has operating costs (including overheads) amounting to £12,90,162 for which it has no budget for. SBC Contracts is required to turn over £13,240,767 in order for it to cover its costs and achieve the budget surplus.

The plant and equipment used by the above services would also need to be reviewed and potentially reorganised to improve utilisation and reduce capital overheads.

The table below gives summary details of the value of the plant currently allocated to the services in scope.

<b>Value of Assets for Reorganisation</b>			
<b>Area</b>	<b>GBV</b>	<b>Acc Depr</b>	<b>NBV</b>
	£	£	£
Neighbourhood Roads	10,247,301	(7,576,846)	2,670,455
SBC Contracts	2,331,302	(1,418,019)	913,282
<b>Total value for reorganisation</b>	<b>12,578,602</b>	<b>(8,994,865)</b>	<b>3,583,737</b>

Glossary of Terms:

<b>Term</b>	<b>Definition</b>
<b>GBV</b>	Gross Book Value - Original Cost
<b>ACC Depr</b>	Accumulated Depreciation to date
<b>NBV</b>	Net Book Value - Possible second hand value

## 6 Preferred delivery models

It was agreed by all parties that to meet the key drivers for change there would need to be a restructure to a redesigned service model.

This arrangement was refined, with the preferred option being a:

**Client/Provider set-up**, where:

- Client = SBC
- Provider = Roads delivery

If taken into an LLP, this would be described as a:

**Client/Provider set-up**, where:

- Client = SBC
- Provider = SBC Contracts/Roads LLP

The consideration of options therefore was between:

**Option 1: Internal restructure – as Client/Provider**

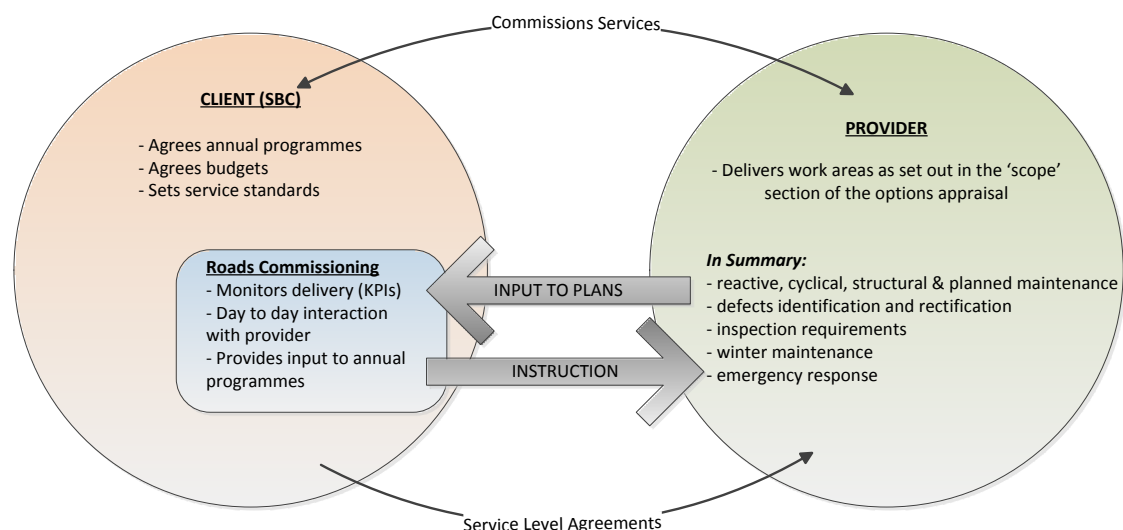
**Option 2: Limited Liability Partnership (LLP) – as Client/Provider**

### 6.1 Option 1: Internal restructure - as Client/Provider

The proposed set up mirrors a Management Agent Contract approach used by Transport Scotland, at present and for approximately the last 20 years, to deliver services on the Trunk Road network. The arrangement has 2 main parts:

Name	Description
3. Client	Council, including the Commissioning of services
4. Provider	Deliverer of services

This is set out visually in the diagram below:



Benefits of the new model include:

- Engagement, albeit in a limited fashion (see section 4.1), with ELBF or any other potential model that may be promoted nationally
- Provision of a one-stop-shop for customers (i.e.) 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

### 6.1.1 Client

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

<b>CLIENT</b>	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 FBC.

### 6.1.2 Provider

The Provider function will focus on the operational delivery of Roads specific works. The delivery areas are shown in detail in *Section 5.1*, but in summary the Provider will deliver:

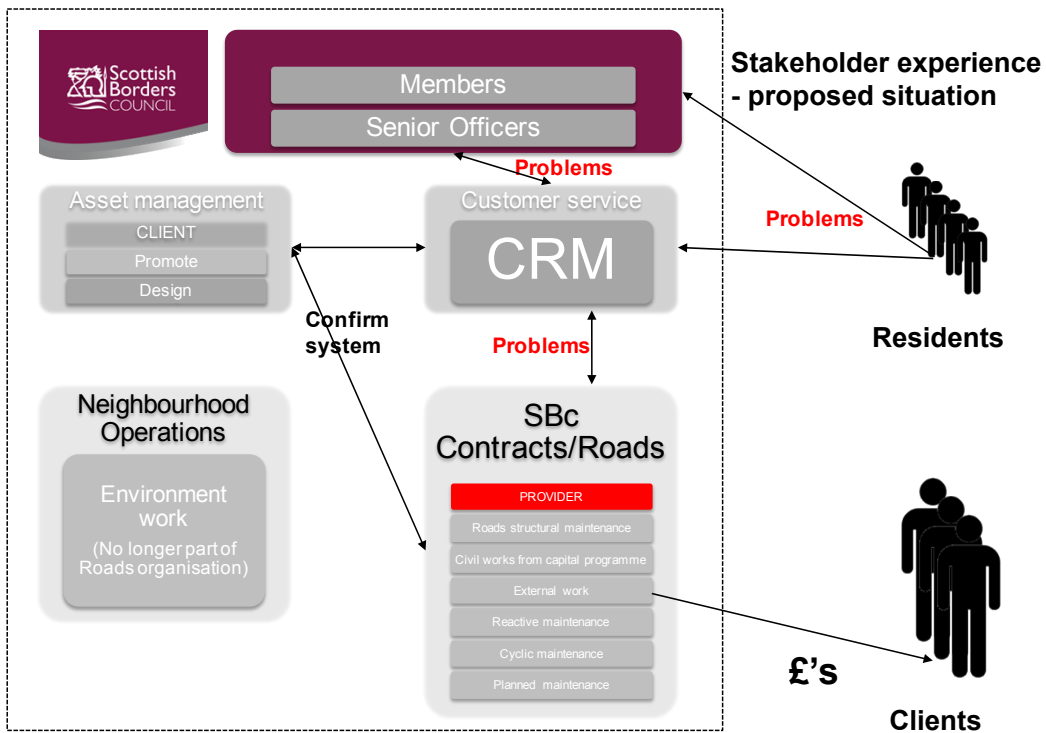
- Reactive, Cyclic, Structural and Planned maintenance
- Inspection requirements

- 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:

<b>PROVIDER</b>	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 (i.e.) 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

The diagram below illustrates how the new organisation will deal with customer and member complaints and issues from a single source:



### **6.1.3 Income streams**

An internal client/provider model will have a limited ability to develop new income streams (see section 4.1).

### **6.1.4 Improved planning and maintenance scheduling**

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

### **6.1.5 Fleet**

Will be owned and managed by the Council's current fleet operation. The new organisation will rent/lease the vehicles and contract for maintenance from fleet.

### **6.1.6 Emergencies and winter services**

Emergency services. Contract to have an element in of stepping in for disasters etc on a cost basis. The current level of service will continue to be provided.

Winter service will be done to the service levels set by the Council.

### **6.1.7 Improvement in services**

This is about client/provider benefits. Challenge to the support services eg IT (new systems) and fleet.

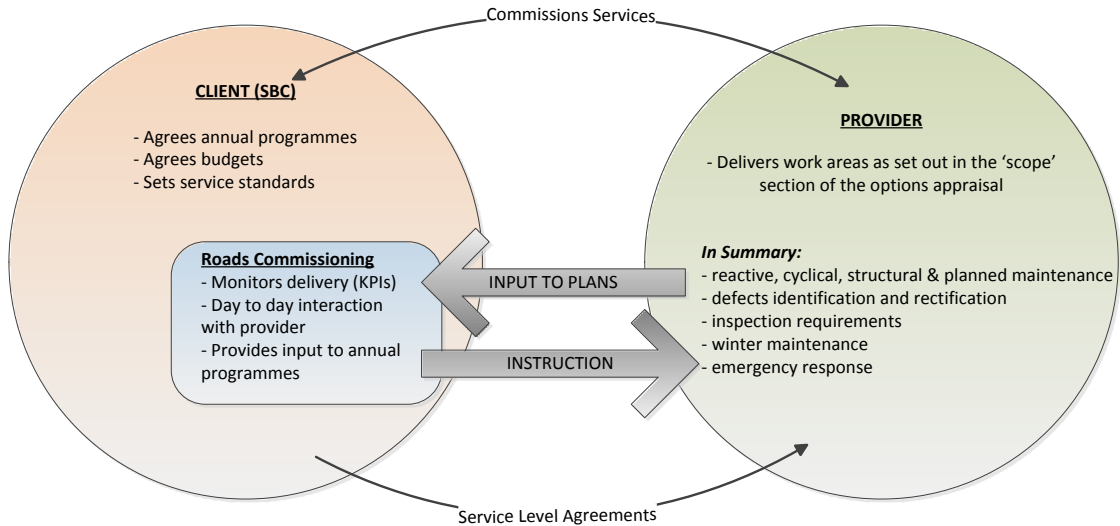
### **6.1.8 Residual NS Ops function**

The remaining Environment function will be reviewed as part of a separate process with the objective of maintaining or improving current performance.

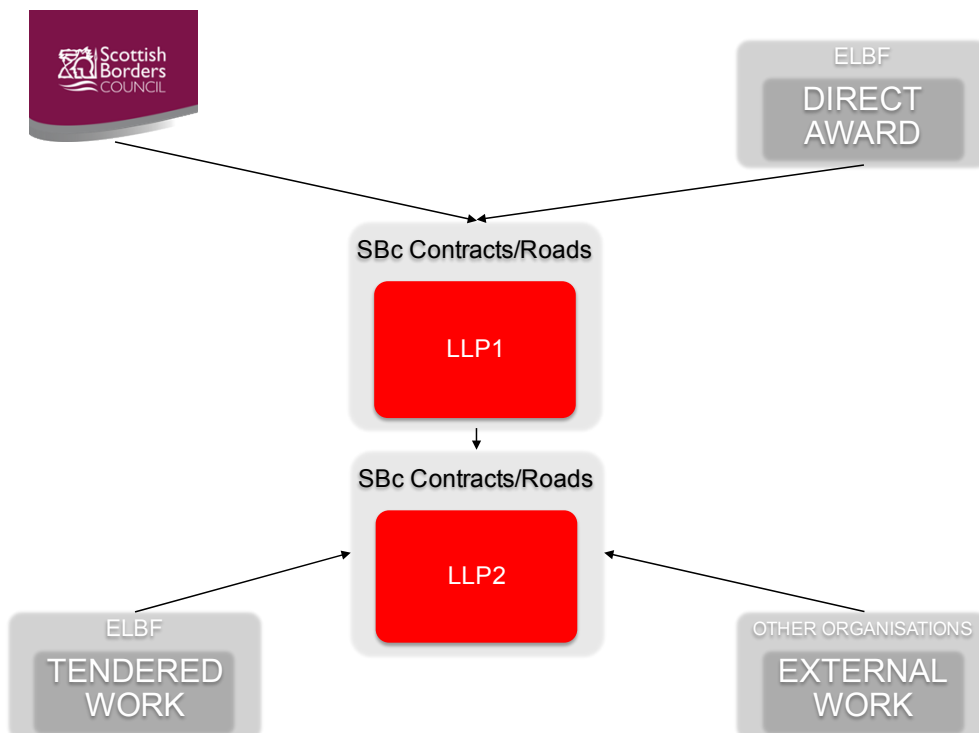
## **6.2 Option 2: Limited Liability Partnership (LLP) – as Client/Provider**

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.

The model with the LLP as Provider would look the same as for the first 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:



The Council successfully launched this LLP model for its In-House Social Care Services, SB Cares. Elected Members and Officers therefore have a benchmark



model, within the Council, to which they can refer to and assess how their control is exercised and how successful the new organisation has been in achieving its efficiency and savings targets.

Therefore, an LLP option would allow the Council to undertake both its own works and those for non-Council customers, complying with the European framework, and still retain overall control of its roads services.

The Local Government Act 2003 provides powers for a local authority to transfer in-house services to a trading company, or LLP in Scotland, where the local authority is the majority partner.

Benefits of this new model include:

- Engagement with ELBF or any other potential model that may be promoted nationally
- Retain the capacity to enter into commercial arrangements for external work
- Provision of a one-stop shop for customers (i.e.) 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

### 6.2.1 Legal

SBc Contracts is resourced, in terms of its manpower and equipment, to be able to provide a significant level of external service.

By virtue of the Power of Wellbeing, a Local Authority is able to enter into trade arrangements with external parties to the extent that is using no more than genuine surplus capacity. In other words, an authority should not legitimately retain “surplus” capacity solely for the purpose of trading externally.

Legislation does not establish the volumes within which an authority can trade under the Power of Wellbeing, but it is commonly agreed that any significant level of external trading income could be open to challenge.

If SBc Contracts is transformed into an LLP – and in particular if it becomes an LLP – Group, then a legal solution exists. A wholly council owned LLP (LLP1) could be formed in a way that is “Teckal Compliant”. Put simply, this means the body will be subject to significant degree of control by the Council, but will be a separate legal entity. As it is Teckal compliant, SBC will be able to continue to directly award works to that LLP (LLP1), without the need for a formal procurement process.

Importantly, the LLP (LLP1) in turn will be free to trade externally - securing up to 20% of its income from that external source. External income generation is restricted to 20% under the Teckal provisions.

However, that capacity to trade externally can be increased. The LLP (LLP1) will be able to form a second LLP (LLP2). SBC itself would not seek to directly award any work to LLP2 and therefore it need not be Teckal compliant.

**LLP2 will therefore be free to trade on the open market without restriction or risk.**

LLP2 will enter into a contract with LLP1 to secure use of LLP1's resources (manpower and equipment) to enable it (LLP2) to complete those external contracts it secures.

Effectively then this mechanism will enable what is now SBc Contracts to lawfully maximise the use of its resources and to operate effectively in providing all the services needed by SBC, but also generating income streams from external trading, which in turn will support the improvement of Council services and will support SBC revenue budgets.

### **Teckal Exemption**

Codified within European Law and can be applied to public sector bodies wishing to externalise their services to another legal entity.

***Where a new legal entity is established by the public body (typically a Council), and that new body is "Teckal Compliant", the Exemption means that the Council can award a contract to provide those services directly to the new entity without any need for a formal procurement process***

Conditions:

1. The new legal entity must be 100% owned by Public Sector bodies
2. The Local Authority must be able to demonstrate that it can exercise significant control and influence on the new legal entity, through its governance structures. The level of control has to be the same as when it was a department of the Local Authority
3. The new legal entity must not derive more than 20% of its income from non-council contracts

## **6.2.2 Financial**

Only Option 2 (LLP) offers the opportunity to fully retain all of this external work and its associated cost contribution and profit. This option also offers the realistic prospect of further developing these financial benefits through opportunities that might arise either from ELBF or any other Scottish Government solution through the NRMR for future Council road maintenance.

## **6.2.3 Governance**

If this model is adopted it will require a new governance structure to be established and it is recommended that the Council adopt that structure which is currently in place for SB Cares LLP. This involves the creation of a Strategic Governance Group consisting of selected Members and Officers. This Group is tasked with meeting quarterly with SB Cares LLP management team to:

- Review and assess the financial and service performance
- Receive and then either accept or amend the annual 5 year business plans
- Receive and review any ad-hoc Business Cases presented by the LLP with a view to ratifying or not the proposed new activity
- Present the senior management team with the Council's strategic and long-term objectives

A Board of Directors would internally govern the LLP, and it would meet officially on a monthly basis where its decisions would be minuted.

The Board would include:

- An Independent Chair
- Managing Director
- Finance Director
- Operations Director
- 2 or 3 Non-Executive Directors

The above governance structure allows the Council to exercise its control over policy, service levels and influence the strategic direction of the LLP.

## **6.2.4 Flexibility**

### **ELBF**

The Scottish Government's desire to see change in the way roads services are provided - and in particular the emergence of the ELBF proposals - creates a significant impetus and driver for change in the way SBC Contracts is structured.

A key concept within the ELBF proposals is that the group of authorities will structure themselves in a way that they are then able to provide road services for each other, and in addition, that they may be able to secure contracts to provide work for bodies such as Amey.

In order to achieve this, it is essential that the Authorities adopt a structure that enables them to directly award works contract to other members of the group, without the need for a formal procurement process.

While there is not yet agreement on the finalised form that the ELBF grouping will take, the option of an ELBF company is being actively considered. Should the Authorities agree to establish a separate legal body to provide this shared function (be it an LLP or indeed any other legal body such as a Limited Company) that body will need to be Teckal compliant to enable that direct award of work to its members. This in turn means that the amount of income which can be derived from external work across its membership is limited to 20%. The immediate knock on effect for SBC Contracts – in its current structure – is that its own ability to undertake external work with its current surplus capacity, would be restricted by its membership of that body.

However, should SBC Contracts be restructured into an LLP 1 and LLP2 model, as explained above, this dilemma can be resolved. SBC will be a member of the ELBF grouping and will provide the works directly awarded to it through LLP 1.

LLP 2 will not be a member of the ELBF group, nor will it undertake any work directly awarded to SBC through the ELBF. It is a separate legal body from both LLP1 and SBC and therefore its ability to trade in competitive external markets will be unfettered by SBC's involvement in the ELBF grouping.

In addition, it is likely that ELBF may tender certain work to external providers such as AMEY or Scottish Water. If the LLP Group structure has been adopted, LLP2 will in turn be able to take the opportunities that might then arise to in turn bid to subcontract in those projects.

## **7 High level financial assessment and implications**

### **7.1 Introduction**

As outlined in the introduction, one of the principles that the reorganisation must follow is the ability of the new organisation to deliver the savings and efficiencies required by the Council and to increase the level of profitable external income. This assessment will confirm whether either of the 2 selected options has that capacity.

The two options to be assessed below are:

#### **Option 1: Internal restructure – as Client/Provider**

#### **Option 2: Limited Liability Partnership (LLP) – as Client/Provider**

The services in scope, as detailed earlier, have a cost base of over £22.2m per annum and their establishment holds over 192 FTE posts. This level of expenditure and activity will provide the opportunities for efficiencies for both options.

The viability and success of organisations is often derived from the size of its budget and workforce, in order for a new legal entity such as an LLP to survive, it must be able to generate sufficient savings and income to finance its own governance and management structure, as well as provide SBC with the savings it requires.

### **7.2 Assessment and implications**

#### **7.2.1 Internal restructure – as Client/Provider**

The restructure of these services would be based on the Client/Provider model whereby the Council and external customers provide the client instructions and commissions and the services becomes the provider to both type of client.

The restructure would involve the bringing together of SBc Contracts, Asset Management and the Neighbourhood Roads services. This amalgamation would allow the following to occur:

- Elimination of the disconnect between roads repair and maintenance resulting in improved efficiencies.
- More efficient management structures designed to eliminate duplicate lines of reporting
- More efficient use of plant and equipment
- Better management of resources

One major implication of the internal restructure is the limitations in relation to additional external income including tendered work from ELBF.

A recent review of local authority powers to trade has raised the possibility that the in-house would need further legal clarification to increase its external income, thus putting into question its ability to meet the principle of achieving additional external revenue.

The in-house services could benefit from the ELBF initiative if works and contracts were awarded to participating authorities without adopting a competitive tender process. However, SBC as a local authority would not be legally able to enter any competitive tender process, so if the ELBF body opted to adopt a competitive tender process for all contracts, SBC would not be able to participate. This again questions this model's ability to meet one of its guiding principles.

## **7.2.2 Limited Liability Partnership (LLP) – as Client/Provider**

The design and the restructure of the services would be exactly the same as that proposed in the internal restructure option.

The differences between the two options manifest themselves in the following areas:

- Increasing external client income
- Better opportunities in engaging with ELBF
- Internal Board and Governance structures for the LLP
- Cultural change and increased commercialisation

### **ELBF and Increased external income**

As a separate legal entity to the Council, the LLP would not fall under the same legal constraints as the Council and would therefore be free to pursue additional external income with no statutory limit.

Where the ELBF programme allocates work directly to local authorities, SBC could carry out that work through its 100% subsidiary of the Council, LLP1.

In addition, as a separate legal trading entity, LLP2 would be eligible to take the opportunity to enter into any competitive tender process instigated by any ELBF contractors for subcontracting contracts.

### **Internal Board and Governance structures for the LLP**

As a separate legal entity the LLP must demonstrate a high level of internal governance and accountability, and the Council must also demonstrate that it can exercise control and influence over the LLP as the principal partner.

The internal governance of the LLP would take the form of a Board of Directors as detailed in section 6.

### **Cultural change and increased commercialisation**

Experience with earlier externalised services and the performance of SB Cares LLP provides evidence that services undergo cultural change once they have been put into a competitive trading environment. As SBC Contracts currently operate in this environment, the culture that they have already installed can be spread across the other services. Some of the factors in this cultural change are explored below:

#### **Continuous management focus**

The executive team that makes up the Board of Directors has a legal and commercial duty to act in the best interest of the LLP. This manifests itself in a focus and drive on the performance of the LLP from a financial and service perspective. This focus should be continual and relentless and it is often the first time that managers and staff have experienced such focus and scrutiny. Most staff reacts positively to this increased focus as they begin to feel that their performance is being noticed and their actions can make the difference that is needed.

#### **Competitive trading environment**

Placing services into a real competitive environment forces staff and management to recognise that the consequences of their actions could have a positive or detrimental effect on the trading position of the LLP. This realisation results in staff taking greater care in ensuring that their decisions are made in the best interest of the organisation whilst still maintaining the service to its Clients. Being wholly owned by the Council owned retains the spirit of public service across SBC.

### **7.3 Achieving savings**

One of the fundamental principles of the restructure is to develop the ability to reduce costs and increase efficiency. Both options that we have appraised will include the same service restructure, so both will follow this reduced cost principle. Below is a high level summary of where or how the restructure will achieve the efficiencies and savings required:

- Streamlining processes
- Improving works programming
- Increased income and margin
- Dilution of fixed overheads
- Reorganisation and rationalisation of fleet capacity and usage

## 8 Options appraisal

### 8.1 Overview

The options appraisal followed the methodology taken for SB Cares, and Audit Scotland's '*Options Appraisal: are you getting it right*' guidance, with regard to Elected Members being involved in option selection rather than being presented with a fait accompli.

The process followed was:

1. Step 1 - Define scope and criteria
2. Step 2 - Develop options
3. Step 3 - Gather information
4. Step 4 - Stakeholder engagement workshop
5. Step 5 - Options appraisal

### 8.2 Options selection criteria

The criteria for the appraisal were based on the agreed key principles:

- 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

From these key principles the key drivers, and tests for these drivers, were developed and are set out in the following summary table:

Drivers	Tests – The delivery model proposal:		Internal restructure	LLP
<b>LEGAL</b> Driver: Legally compliant	1	Delivers a fully legislatively and legally compliant service?		
Rationale:				
<b>FINANCIAL</b> Driver: Financial pressures, income pressures. Opportunities to develop commercial operations	2	Delivers best value in performance for SBC?		
	3	Provides a mechanism for SBC to achieve financial efficiencies?		
	4	Enables the entity to maximise income/profit opportunities?		
Rationale:				
<b>CUSTOMER</b> Driver: Customer service/one-stop-shop. Current disconnect between repair and maintenance, lack of clarity on who to contact to resolve issues	5	Delivers the service change required?		
	6	Delivers a model acceptable to public, Members and external clients?		
	7	Safeguards essential services (eg) winter maintenance and emergency service?		
	8	Delivers improved outcomes for customers/users?		
Rationale:				
<b>GOVERNANCE</b> Driver: Control is retained by Scottish Borders Council	9	Ensures that control is retained by SBC?		
	10	Ensures that scrutiny is retained by SBC?		
	11	Ensures that service levels are defined by SBC?		
Rationale:				
<b>FLEXIBILITY</b> Driver: Scottish Government agenda (eg) changes to Roads authorities including ELBF	12	Maximises the benefits to Scottish Borders Council from participation in ELBF?		
	13	Flexible enough to accommodate other services at a future date?		
Rationale:				
<b>TOTAL :</b>				



### **8.2.1 Scoring**

The options were scored 0-5 against the tests and drivers, where:

0 = minimal delivery against the tests

5 = delivers fully against the tests

A weighting was applied for the key drivers:

- Financial
- Legal

### **8.2.2 Scored by**

The Alternative Models Delivery Board approved the following individuals to score the options:

- Philip Barr
- David Robertson
- Brian Park
- Jenni Craig
- Andrew Drummond-Hunt
- Care & Health Solutions

### 8.3 Options appraisal

The following sections summarises the results of the options appraisal:

#### 8.3.1 Detailed scores with rationale

Drivers		Tests – The delivery model proposal:	Restructure	LLP
<b>LEGAL</b> Driver: Legally compliant	1	Delivers a fully legislatively and legally compliant service?	5	35
Sub-total:			5	35
<p>Rationale/reasons for Score:</p> <p><b>Internal restructure:</b></p> <ul style="list-style-type: none"> <li>• To comply, the scale of external/private work would need to substantially reduce, compromising the economy of scale of operations and resulting in significant staff losses</li> <li>• Undertaking the current volume of external work is on the limit of the legal boundaries</li> <li>• An integrated in-house model would deliver better performance but would be limited based on lack of income available</li> </ul> <p><b>LLP:</b></p> <ul style="list-style-type: none"> <li>• Allows subcontract and joint venture income to be maximised</li> <li>• LLP would allow access to unlimited external work</li> <li>• Legal advice confirms that the LLP structure can allow trade to continue and grow</li> <li>• It would deliver financial efficiencies but it would be difficult to engender a culture change</li> <li>• The proven two company structure complies with Teckal and other statutory obligations</li> </ul>				

Drivers		Tests – The delivery model proposal:	Restructure	LLP
<b>FINANCIAL</b> Driver: Financial pressures, income pressures. Opportunities to develop commercial operations	2	Delivers best value in performance for SBC?	15	30
	3	Provides a mechanism for SBC to achieve financial efficiencies?	17	31
	4	Enables the entity to maximise income/profit opportunities?	7	32
Sub-total:			39	93

Rationale/reasons for Score:

**Internal restructure:**

- Only limited income
- Won't deliver savings or income and would make roads works more expensive through reduced economies of scale and probably need to bring in contractors from outwith the Borders for larger works
- Reduces the ability to generate income and would add to the financial pressure
- Savings and income not maximised
- Council's ability to make savings and efficiencies not as good as moving to an external body
- It would deliver improvements to the customer experience and modern IT will help enormously. However, due to the budget constraints visible improvements will be limit
- Won't have cultural and business change to achieve sufficient savings
- Theoretically could compete in the private sector but its status is confusing to the market

**LLP:**

- Reinvestment is key to delivering best value
- Greater focus on competitive costs and costing
- Allows the pursuit of external/private work without any restrictions as to scale (good business management allowing)
- Can deliver savings and income but cost base needs to be reduced
- SB Cares proves that moving out will enhance ability to perform
- SB Cares proves that externalising into an LLP will allow efficiencies to be gained relatively easily  
The LLP would be set up to develop income and as a vehicle would allow the management to focus on this as their sole raison d'etre
- Offers probably the best model for maximising performance - slight risk around SBC vs other external customers. Will allow a culture change
- Allows required culture change and scrutiny of financial performance
- Other externalised services in SBC and other authorities have proven that they can provide best value
- The new levels of flexibility and management focus on cost and efficiencies will result in savings

Drivers		Tests – The delivery model proposal:	Restructure	LLP
<b>CUSTOMER</b> Driver: Customer service/one-stop-shop. Current disconnect between repair and maintenance, lack of clarity on who to contact to resolve issues	5	Delivers the service change required?	25	31
	6	Delivers a model acceptable to public, Members and external clients?	27	30
	7	Safeguards essential services (eg) winter maintenance and emergency service?	32	32
	8	Delivers improved outcomes for customers/users?	26	31
Sub-total:			110	124

Rationale/reasons for Score:

**Internal restructure:**

- In-house reduction will lead to lower morale and resistance to change
- Customers will also be Scottish Government (AMEY)
- Only partially delivers the required change and any change is offset by reduced efficiency through not being able to pursue private/external work
- Acceptable to the public and possibly the Members and ELBF (if external/private work was appropriately reduced) but won't be viable for external/private customers. May jeopardise the Council's ability to undertake work for Amey
- Debateable whether this could be fully achieved if the economies of scale aren't maintained - in reality there might be a need to reduce some of these services to offset the possible need to use external (central belt) contractors for larger roads repairs
- Debateable whether this could deliver improved outcomes if the economies of scale are reduced
- Would sort out the disconnect seen in the current services
- On the face of it yes....but could be a better service as very reactive
- Yes, safe now so safe if stays in Council
- Restructure would deliver better outcomes

**LLP:**

- Income generation drives customer focus
- Understandable structure, service and one-stop-shop and reinvestments
- If customers are private sector and/or Government then this model would be preferred
- Protects the in-house services and enables the development of external/private work to help subsidise/compliment the former
- This is a win/win/win - all customers should get a better service
- Maximises the prospects of retaining/enhancing essential services
- Potentially offers the better prospects for improved outcomes, particularly with the combining of maintenance with repairs
- Yes, as SB Cares has proven to them that it can work. However there is still a feeling that you could do all of this in house
- The contract will set out what has to be delivered
- It has the potential to do this provided the commissioning and customer engagement arrangements are right
- Safeguarding essential services, (e.g.) winter maintenance and emergency service, will be a key part of the success of any new model - financially this model gives these areas the best opportunity but there needs to be careful management of both areas to ensure that priority is given as required
- This model has the opportunity to do this – same risk exists around balancing priorities with other external customers
- The freedom and flexibility to redesign services for the better will enable service change
- The Council as commissioner can contractually oblige the LLP to safeguard winter and emergency services

Drivers		Tests – The delivery model proposal:	Restructure	LLP
<b>GOVERNANCE</b>	9	Ensures that control is retained by SBC?	34	32
Driver: Control is retained by Scottish Borders Council	10	Ensures that scrutiny is retained by SBC?	34	34
	11	Ensures that service levels are defined by SBC?	34	32
Sub-total:			102	98

Rationale/reasons for Score:

**Internal restructure:**

- Service under direct control
- Safeguards essential services (e.g.) winter maintenance and emergency service
- Yes, no change to control
- Stays the same
- Current scrutiny levels will prevail or could be enhanced
- If current service levels are deemed satisfactory, they can be maintained

**LLP:**

- SGG and Commissioning keeps Council control
- Will be open to full Council scrutiny
- Strategy, Policy & Commissioning set by Council
- If structured/managed appropriately, rigorous scrutiny can be put in place through performance monitoring and management by the commissioning arm
- Council will own the company and exercise control over its activities
- Contract will set out the service levels and the commissioning provider split will be more effective at setting the requirements and monitoring what happens
- This LLP vehicle has the legal capacity to take in other services transferred from the Council. This could be in a group structure or within the existing Roads LLP
- Governance structures and quarterly financial/quality performance reports will provide greater scrutiny and transparency than currently available
- Service contract commissioned by SBC "intelligent client" will define acceptable service levels

Drivers		Tests – The delivery model proposal:	Restructure	LLP
<b>FLEXIBILITY</b> Driver: Scottish Government agenda (eg) changes to Roads authorities including ELBF	12	Maximises the benefits to Scottish Borders Council from participation in ELBF?	14	29
	13	Flexible enough to accommodate other services at a future date?	10	28
Sub-total:			24	57
<p>Rationale/reasons for Score:</p> <p><b>Internal restructure:</b></p> <ul style="list-style-type: none"> <li>• Just another Council within ELBF</li> <li>• Can accommodate new services but no benefits</li> <li>• Will allow participation but not as a provider Assuming the external/private work is scaled down to suit then it would be possible to interface with ELBF; otherwise the interfaced would be significantly hampered</li> <li>• Only provide they are in-house services only</li> <li>• Will allow participation but not as a provider</li> <li>• Can take part as a commissioner but not as a provider</li> <li>• Not the right vehicle to put further services into</li> <li>• Remaining in the Council will not allow aggregation of various services into one "conglomerate service"</li> </ul> <p><b>LLP:</b></p> <ul style="list-style-type: none"> <li>• SBC would have commercial contract arm generating income</li> <li>• Capable of accommodating service with some synergies to Roads</li> <li>• Will allow in-house participation through LLP1 and participation with external clients through LLP2 - very flexible solution</li> <li>• Will allow participation in ELBF</li> <li>• Model is flexible enough to adapt to change</li> <li>• The LLP can deliver services to the ELBF under Teckal</li> <li>• Yes. The LLP can expand and add other services plus set up more companies in a group structure</li> <li>• Will allow participation as a provider</li> </ul>				
<b>TOTAL:</b>			280	407

### 8.3.2 Summary of scores

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

As referred to in the earlier section, this scoring did not apply any weighting to the results of the appraisal. If the three drivers of Legal, Financial and Flexibility had been weighted higher than the other drivers, the resultant score would have shown an even greater difference.

## **9 Conclusion and recommendation**

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

- 1. The Client/Provider arrangement is the best set up for a redesigned Roads service**
- 2. The Limited Liability Partnership (LLP) model is the best model for the redesigned services**
- 3. A full Business case is developed for the LLP model within the next 3 months**

The Full Business Case will contain the following:

- 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 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