

OUTLINE BUSINESS CASE: KEY FINDINGS AND RECOMMENDATIONS

a) Scope of services

Independent Scope Review

1 In order to assist the Council in determining the optimum scope of services for the Highways Partnership an independent scope review was commissioned jointly by the Head of Highways and Head of Neighbourhoods (available in the Members Room) and was undertaken by Kingsclere Associates to determine, on the basis of objective evidence, which services should be included in the Partnership. In considering the question, the review focussed on: current service delivery; achievability, deliverability and focus; including commercial and financial considerations. Its conclusions were also drawn from two relevant case studies, dialogue with service providers and existing service performance information.

2 The Independent Scope Review recommended the following:

In-scope services	Possible Inclusion	Out-of-scope services
Highway planned and routine maintenance Highway Capital Projects Highway management functions Traffic signs Traffic signal maintenance Highways Business Support Bridges and structures design and works Gulley cleansing Parking surfaces	Third Party liability claims Urban traffic control	Fly tipping Grounds maintenance Graffiti removal Highways verges and trees Street cleansing Street-lighting Parking enforcement Refuse and waste disposal Planning and Sustainability Environmental health and protection Highway events management

Appendix A provides a narrative to the table.

3 The above recommendation was subsequently considered by Officers, and the Cross-Party Members Steering Group, with the following observations:

- Open Spaces services such as Street Cleansing and Green Spaces are currently a high performing, low cost service and there is therefore no reason for inclusion given the risk of the service deteriorating and the lack of opportunity to deliver any efficiency.
- There is no support for the inclusion of Third Party Liability (TPL) Claims as it would require the division of the service. It is more important that the Partner is incentivised to reduce third party liability claims which can be done despite exclusion. Additionally, if Parks and Open spaces are excluded then the inclusion of TPL would become less commercially viable for the market.
- Urban Traffic Control (UTC) is a service which requires immediate response and reaction to incidents across the City, is not constrained by Authority boundaries, and is more closely linked to the parking service, Additionally, work is being undertaken examining the delivery of UTC on a sub-regional basis and therefore it should not be fixed into the partnership

Scope Recommendation

4 The services below are therefore recommended for inclusion in the Partnership.

Environment Directorate

Highways and Parking Division

- Transport Engineering
- City Centre and Major Projects
- Engineering Implementation

- Street Maintenance
- Traffic Signals – design, installation and maintenance
- Traffic Management Team
- Street Works (network management)
- Business Support
- Service Futures
- Lining and surfacing of surface car-parks (not Multi-Story)

Neighbourhoods Directorate

Parks and Open Spaces Division

- Gulley Emptying

Appendix B provides a structure chart identifying in-scope services.

5 All major capital schemes would be delivered by the Partnership with the Council reserving the right to market test any schemes over £4m.

6 The above services are those which will be the subject to discussion with the market through the competitive dialogue procurement process. The scope of services and the functions therein may alter as a result of the dialogue process which may or may not validate the case for inclusion. Any changes to scope would be represented in future reports to Members.

7 Given the above scope it is expected that approximately 150 staff will be affected by the move to a Highways Partnership. Appendix C provides a breakdown of the number of posts as related to service area.

OJEU Notice

8 An OJEU notice will need to be placed for the Partnership and must detail the services to be included within the contract (see Appendix D for an explanation of the OJEU notice requirement). It is recommended that the OJEU notice includes only the scope of services recommended for inclusion above.

b) Partnership Model Options Appraisal

9 The OBC undertook a robust options analysis of four Partnership Models. These were:

- **“Virtual” Partnership** – Lead by an integrated Partnering Board that comprises of representatives of all partners. Both Southampton City Council (SCC) and Partner organisation resources in independent management structure and separate locations. This model has the closest similarities to the contracts currently in operation in the Highways service .
- **Co-location Partnership** - Lead by an integrated Partnering Board that comprises of representatives of all partners. Both SCC and Partner organisation resources co-located but retained in independent management structures. This model has certain similarities to the partnerships currently in operation at the Council.
- **Partial Integration Partnership** - Lead by an integrated Partnering Board that comprises of representatives of all partners. SCC and Partner resources are co- located and integrated into single management structure. However, staff from both sides remain employed by and supported, in terms of HR, payroll etc. through their parent organisation.
- **Full Integration Partnership** - Lead by an integrated Partnering Board

that comprises representatives of all partners. This Partnership could be established through a Strategic Service Partnership or a Joint Venture. Resources are co-located and operate within a single integrated management structure; Staff from the parent organisations are transferred into the partnership model. This model signifies a different approach to service delivery in the Council.

10 There are potentially two main forms a Full Integration Partnership could take: a Service Partnership; or a Joint Venture. For the purposes of the options analysis there was no need to differentiate between the two forms as they both provide a similar level of service integration.

11 However, a Service Partnership (SP) is the recommended form for a Full-Integration Partnership because a Joint Venture carries a greater risk to the Council, in addition to requiring increasing implementation timescales and costs. A fuller analysis of a JV and SP are attached as Appendix E.

SWOT Analysis

12 A strengths, weaknesses, opportunities and threats analysis (SWOT) was undertaken on the four models. This demonstrated that the more the level of integration is increased, the greater the opportunities for delivering against the Critical Success Factors and the Council's aims and objectives. However, increased integration results in increased risk.

Implementation Analysis

13 The implementation option of the four models was also considered in terms of: timescales and change management. As progress is made through the options towards the Full Integration option the implementation difficulties/issues will increase only marginally between a Full and Partial Integration.

Critical Success Factors

14 A number of Critical Success Factors (CSF) for the delivery of a successful partnership were determined and weighted. Each model was scored against the CSFs to provide an overall score for each model. Additionally, each partnership model was also scored against the CSF's used in the Strategic Business Case to determine which partnership model delivered best against the Council's overall aims and objectives.

15 The scores against each partnering model in terms of meeting the critical success factors of a partnership were:

- Full Integration partnership = 96%
- Partial Integration partnership = 68%
- Co-location partnership = 42%
- Virtual partnership = 37%

16 The scores against each partnering model in terms of best achieving the Council's overall aims and objectives were:

- Full Integration Partnership = 97%
- Partial Integration Partnership = 67%
- Co-location partnership = 51%
- "Virtual" partnership = 33%

Economic Benefits Model

17 Finally, each partnership model was assessed in terms of the economic benefits it would deliver to the Council. Through the Highways Partnership the Council would expect to improve its service levels for less resource than currently. The efficiency savings can then be re-invested back into the highways network.

18 Based on current industry best-practice and Audit Commission data it was estimated that each model would deliver the percentage efficiency savings as shown below against annual capital and revenue spend. Savings were categorised into pessimistic, realistic and optimistic to account for optimism bias.

Partnership Model Option	Optimistic Anticipated % Saving	Realistic Anticipated % Saving	Pessimistic Anticipated % Saving
Current in-house model	2	1	0
Virtual Partnership	3	2	1
Co-location Partnership	4	3	2
Partial Partnership	6	4	2
Full Integration	8	6	5

Investment in service

19 The OBC estimates that the private sector partner would make an investment of approximately £10m over the life of the contract in the service delivery infrastructure (e.g. Plant, Management Information Systems, and Technology etc). This represents 7% of the expected total contract value of £14m per year.

c) Collaboration

20 The OBC considered the opportunities for working in collaboration with other local public sector bodies within the region. The OBC considered all forms of collaboration

21 An analysis of the opportunities for joint working with other public sector authorities determined that there was no potential for collaborative working. This was due to:

- restricted OJEU notices meaning the Council could not 'join' another contract (e.g. Hampshire County Council's highways contract is limited to Hampshire CC by the OJEU notice);
- lack of synchronisation between contract start and/or expiry dates (e.g. Portsmouth have a 25 year PFI contract); and
- authorities already exploring other options (e.g. Isle of Wight successful in their bid for Highways Maintenance PFI Credits).

22 However, the Council will draft the OJEU notice so that other local authorities in the south east and south west could enter into an arrangement with the Partnership. This could deliver potential further cost savings to the Council if this occurred.

d) Staff Transfer

23 The implementation of a Full Integration Highways Partnership would require the transfer of approximately 150 staff from the Council to the Highways Partnership.

24 The OBC considered the staff transfer situation and recommended that where staff are transferred to the Partnership this should be a TUPE transfer as opposed to a staff secondment model or staff choice model based on legal advice and demonstrable benefits to the Council

25 It is therefore recommended that it is in the best interests of the Council to specify to bidders that TUPE will apply to all staff transfers in relation to this Partnership.

Pensions

26 TUPE protects transferring employees terms and conditions. However, under TUPE service providers are only required to provide a 'broadly comparable, Government Actuary Department (GAD) approved pension scheme for transferring employees'. A GAD approved scheme is not necessarily identical in terms of benefits when

compared to the Local Government Pension Scheme.

27 To ensure that an employee's pension benefits are not affected the Council can clearly state to bidders a preference (it can not specify the requirement due to procurement regulations) for bidders to offer LGPS scheme through application for Admitted Body Status (ABS) into the local LGPS pension scheme.

28 Given the above and in addition to the fact that all transferred staff under the Capita arrangement retained LGPS it is recommended that the Council specifies the preference for the retention of LGPS for staff transferred to the Highways Partnership, subject to any financial considerations.

e) Contract Length

29 The OBC recommended that the contract should be of significant length in order to allow enough time for efficiencies to be driven out of the service, to encourage providers to invest in the service and to allow a strong partnering relationship to be established which will facilitate innovation in service delivery, again leading to efficiency savings.

30 The recommended length of contract is 10 years with the potential to extend on a yearly basis for up to a further 5 years based on performance.

f) Procurement Process

31 The selection of a service provider for the Highways Partnership will require a full EU procurement process. The OBC recommends the use of the competitive dialogue procurement process (CD). CD is for use in the award of complex contracts where there is a need for the contracting authorities to discuss all aspects of the proposed contract with candidates. CD is explained in more detail in Appendix D. CD requires careful management and takes approximately 18 months from OJEU notice to Contract Award. However, spending time at the outset discussing requirements with the market ensures the final solution is one which is much more suited to the authority therefore delivering time and cost benefits over the life of the contract.

32 It is recommended that the Council use the Competitive Dialogue Procurement Process.

OTHER DETAILS

Timescales

33 If the report is approved the target date for the commencement of the Highways Partnership will be September 2010. A detailed programme is attached as Appendix D. The programme would be subject to change due to the high number of variables which surround the procurement and implementation however, the key milestones are programmed as:

- Procurement Process Commences August 2008
- Close Competitive Dialogue August 2009
- Preferred Bidder Selected March 2010
- Contract Award June 2010
- Service Commencement September 2010

Equalities Impact Assessment and Sustainability Appraisal

34 A Sustainability Appraisal (SA) and an Equalities Impact Assessment (EIA) have been undertaken as part of the development of the project. The outcomes of the SA and EIA will be used to inform the procurement process in order to ensure that any negative impacts on sustainability or equalities are mitigated.

35 Broadly the SA and EIA indicate a positive impact of the project on the environment and equalities and do not highlight any major negative impact on the environment or equality issues and has not highlighted any major negative implications.

- 36 The EIA does identify the impact of this Partnership on local small and medium enterprises (SME) (e.g. local contractors). Local contractors will not have the technical or financial capacity to deliver a contract of this size. Although it should be noted that the Council's direct contractual relationships with local contractors is limited (therefore the move from the Councils current arrangements to a Partnership means the change that local contractors experience is likely to be minimal), local contractors do benefit from appointments as sub-contractors to larger organisations (e.g. as has happened between the Council's current contract with Colas and local sub-contractors). To mitigate the impact on local contractors the Council would expect the appointed Partner to continue using local contractors. The use of local contractors and wider community benefits will be a key focus of the dialogue during the procurement process and will form part of the evaluation process highlighting the Council's preference for a Partner who actively works within the local economy. The Council is also currently exploring best-practice in sustainability pathfinder Councils (e.g. Wakefield) to ensure that sustainability is a core part of the Highways Partnership.