

3 The Economic Case

3.1 The purpose

3.1.1 The purpose of this chapter is to detail the Economic Case for consideration and to carry out a detailed options appraisal so as the Council can progress to identifying a recommended option

3.1.2 Other areas this chapter considers include:

- ∣ Background - looks at what has previously been identified in The Strategic Business Case for the economic case for service improvement and the options available to the Council. This information has been included to inform the decision making process.
- ∣ The Long and Short list of options
- ∣ SWOT analysis
- ∣ Opportunities for innovation and collaboration
- ∣ Implementation options
- ∣ Partnering model risk quantification and sensitivity analysis
- ∣ Summary of outcomes from workshop
- ∣ Economic Benefits Models

3.2 Background – The Economic Case for Improvement

Purpose of this section

3.2.1 The purpose of this section is to briefly reacquaint the reader with previously visited strategic options and considerations detailed in the Strategic Business Case. Its primary intention was not to determine or influence the future investment strategy, but to look at the options, and the extent to which those options impact on potential service delivery vehicles.

3.2.2 The section therefore looked at the investment need in terms of the expenditure needed to maintain the infrastructure, but not improve it.

Business drivers

3.2.3 The main business drivers behind the service and what it is that will improve the service over time are:

- ∣ The Council's stated long term strategy is “to deliver significant and sustained improvements in the highways infrastructure of Southampton, in order to enable the delivery of the Authority's “City of Southampton Strategy” by 2026.” The strategy is therefore clear that improvement in operational service levels will flow from improvements in the condition of the infrastructure.
- ∣ Whilst there will normally always be opportunities for Councils to deliver their day to day operations more effectively within a given service budget, the key issue here is that these improvements will either be small or unsustainable unless linked to improvement in the condition of the infrastructure.

The medium term strategy

- 3.2.4 As is the case for the majority of councils across the country, the historic levels of investment in the highways infrastructure have not been sufficient to keep pace with the rate of deterioration. The Council's own PFI submission of September 2006 identified a backlog of carriageway and footway structural maintenance of £51 million, and the fact that this is likely to increase further is explained in the following paragraphs of this section of the report.
- 3.2.5 At the time of writing the Strategic Business Case, no decision had been made by central government on the Council's PFI bid, hence the strategy prudently assumed that the bid would be rejected.
- 3.2.6 The initial strategy intended to be one of investing sufficiently in the infrastructure to hold the condition in its current state until 2014. Information is now emerging which suggests that the current level of investment may not be securing this objective, then without further substantial investment, the strategy will need to move to one of "managed deterioration". The medium term issue for the Council is therefore how to prioritise within the scenario that not all of the assets can be maintained in their current condition.

A condition led approach

- 3.2.7 A condition led approach represents a change from the Council's previous practice and will have significant financial implications. The Council has embarked on the preparation of an asset management plan and it is expected that this will drive the process forward.

Measuring asset condition

- 3.2.8 Measuring asset condition is currently a contentious issue within the industry for the following reasons:
- ∴ BVPI condition data is currently "subject to challenge" nationally, and is constantly being reviewed. Furthermore, its basis of calculation has changed over the last few years, so there is an issue of consistency which makes it difficult to assess whether the network is improving or deteriorating
 - ∴ Technical engineering advice from the Council's Officers suggests that it is therefore questionable as to whether the BVPI led approach is actually the best way forward. It is one factor which needs to be taken into consideration but other information such as deflectograph, SCRIM and construction data needs to be added to gain the full picture. Therefore, there must be questions as to how good a measure BVPI's are of the real asset condition.
 - ∴ Currently SCANNER data is collected on the Principle and Classified road network, as well as delectograph and SCRIM data, plus indicative information on construction depth. Results can be reported using a "traffic light" sequence, where areas in the red zone have failed structurally, those in the amber zone are approaching failure and those in the green zone are acceptable. CVI data is collected on Unclassified roads. This only distinguishes between assets requiring intervention and those not requiring intervention. The principle and Classified road networks in Southampton are short in length and therefore CVI data has also been collected annually to offer fully comparable condition figures since 2003 if required.
- 3.2.9 Recent data, albeit potentially flawed for the reasons explained above, and (in the case of principal roads) because the method of measurement has been changed, is summarised in Table 3 below. It should also be noted that the Council's own BVPI submissions were

heavily caveated on the basis of the unreliability of CVI's and the fact that footways are only reported on part of the network.

Table 3: Reported BVPI data (% of network requiring structural maintenance)

Network	2003/04	2004/05	2005/06	2006/07
Category 1, 1a & 2 footways	36.5%	21.8%	16.4%	12.0%
Principal roads	16.9% (cvi)	15.2% (cvi)	15.5% (cvi) 33.6% (scanner)	23.0% (scanner)
Non-principal roads (classified)	33.9% (cvi)	36.7% (cvi)	31.4% (cvi) 32.8% (scanner)	20% (scanner)
Unclassified roads	13.5% (cvi)	9.9% (cvi)	11.9%(cvi)	14.8% (cvi)

Source: Council's BVPI returns (based on 100% samples, except for footways – see below)

3.2.10 The suggestion in the above table is that the condition of footways has improved, but it must be noted that the 2003/04 data may be unreliable, and that all years except for the most recent are based on samples. So far as roads are concerned, the messages are mixed. Principal and non-principal (classified) roads show an improvement at face value, but it has to be recognised that the SCANNER data used in 2005/06 was investigated by the DfT and shown to unreliable.

3.2.11 Unclassified roads show deterioration, but it must be recognised that the method of measurement is not necessarily reliable, and that it does not “grade” condition.

3.2.12 Overall, therefore, given the uncertainties expressed above, it would be unwise to draw any firm conclusions from the above. What can be concluded, however, is that:

- ⋮ there is no reliable evidence which shows the condition of the network to have improved significantly over the last few years
- ⋮ the advice of Officers qualified to take a professional view on the condition of the network is that it is deteriorating taking into account all the available information
- ⋮ continuing development of condition measurement techniques, and changes in the methodology make it very difficult to compare figures from one year to the another

Determining the rate of network deterioration

3.2.13 The utility companies (water, gas, electricity etc) have, over the years, undertaken major research into asset lives and condition and have been able to develop asset management and maintenance strategies accordingly. This is not yet the case for the highways business, although a number of councils have started this process.

3.2.14 Southampton is currently awaiting production of its asset management plan, and expects this document to inform the Council's thinking. However, given the doubts expressed above on the various measurement techniques, and recognising that this business case needs to include indicative financial estimates, the view of Officers is that the best guide to average asset life is:

- ‡ the number recently cited by the UK PMS Users’ Group is 55 years (an average deterioration rate of 1.8% per annum)

3.2.15 At a meeting of Council Officers on 25 May 2007, it was agreed that:

- ‡ the use of 1.8% for deterioration was confirmed as the best option available to the Council as to the average overall rate of deterioration
- ‡ a higher figure of 4% should be used for principal roads, reflecting their current 25 year design life
- ‡ these figures should be used in this business case, but be subject to further research and adjustment as better information becomes available, either during the procurement process, or after the procurement (by using external expertise in this area).

3.2.16 In conclusion, this business case uses the above deterioration rates on a provisional basis in order to provide indicative investment numbers and, importantly, to identify the approximate size of any investment gap, or likely accumulation of further backlog.

Defining the investment need – broad estimates

Sources of Information:

3.2.17 The lengths of the respective parts of the network are taken from the Council’s PFI submission of September 2006. Reconstruction definitions and treatment costs are also taken from that document. In the case of treatment costs, an uplift to the prices used in the PFI bid has been applied inline with inflation (3%). In discussion with Officers, it was agreed that these prices should be further uplifted by 15% to include a standard level of design cost, and by a further 10% to cover other scheme costs and contingencies. The costs have also been adjusted to reflect averaged road widths of 9 metres (principal), 8 metres (classified B), 7 metres (classified C), and 5.5 metres (unclassified). All footways have been assumed to have a width of 2 metres.

3.2.18 The Council’s current network lengths are shown in Table 4 below.

Table 4: Network Lengths

Network Element	Length
Principal roads	79 km
Non-principal classified roads	63 km
Unclassified roads	452 km
Category 1 footways	17 km
Category 2 footways	168 km
Unclassified footways	1083 km

3.2.19 As set out in the previous section of the report, the Council is working on the assumption of an average annual deterioration rate of 1.8% per annum (increased to 4% for principal roads), which effectively gives an asset life of 55 years (25 years for principal roads).

3.2.20 Whilst the valuation of the network will not be known until the asset management plan is finalised, based on the Council’s own estimates of reconstruction costs, the road network

alone is likely to have a replacement cost in excess of £400 million, suggesting an annual investment need in the region of £7 to £8 million to keep the network in “steady state”. On top of that are the footways which could add a further £250 million to the valuation, suggesting a further investment need of £4 to £5 million per annum.

3.2.21 The above are, of course, very crude estimates, but the purpose at this stage is to grasp the likely magnitude of the figures and the implications that flow from that. It is important to note that these figures include only the infrastructure element of the overall transportation budget.

3.2.22 At this level of investment, whilst each individual scheme is in itself an improvement, it needs to be recognised that in overall terms the rest of the network is continuing to deteriorate. In other words, for every maintenance length that is removed from the “requires structural maintenance” category at least an equivalent length is moving into it. The network, taken as a whole, is therefore being maintained in its existing condition. In order to secure overall improvement, the rate of investment would need to be increased.

Defining the investment need – by asset type

3.2.23 Taking the Council’s September 2006 PFI submission as the basis, we set out in Table 5, based on the same assumptions, the investment need by asset type, again using the 1.8% deterioration rate (4% for principal roads).

Table 5: Annual Investment Need³

Network Element	Length (km)	Length treated per annum (km)	Reconstruction cost (£/metre (running))	Total annual reconstruction cost (£ million per annum)
Principal roads	78.6	3.14	1159	3.64
Non-principal classified roads	63.3	1.14	785	0.89
Unclassified roads	452.3	8.14	464	3.78
Total roads				8.31
Category 1 footways	16.8	0.30	386	0.12
Category 2 footways	168.4	3.03	386	1.17
Unclassified footways	1083.2	19.50	258	5.03
Total footways				6.32

3.2.24 The estimates in Table 5 use the definitions of reconstruction which were used in the PFI bid, and these do not include full depth repairs for non-principal roads (classified) and unclassified roads. If this were to be done, then the annual investment need would increase by approximately £2 million per annum.

³ Using PFI bid reconstruction definitions

- 3.2.25 In summary therefore:
- ∴ the annual investment requirement for roads would be £8.3 million
 - ∴ the annual investment requirement for all footways is approximately £6.3 million, but this is reduced to £1.3 million if unclassified footways are taken out
 - ∴ if the Council were to adopt a strategy of maintaining all roads in existing condition, but ignored all unclassified footways, the investment need would amount to £9.6 million per annum.
- 3.2.26 In reality, of course, the network would not be maintained proportionately as above, and there is, as explained previously, no element of improvement in the above.
- 3.2.27 In the absence of additional resources to meet the required investment need the Council must ensure that it makes best use of the resources available to it. It must maximise the resources available ensuring best value for money, and drive out inefficiencies through an effective and efficient service delivery model. Any efficiencies must then be reinvested back into the highways network.
- 3.2.28 Given the Council's limited resources it must ensure that moving forward any highways service:
- ∴ Drives out all operational inefficiencies in service delivery (capital and revenue element) to reinvest in the network;
 - ∴ Provides an adequate but flexible capacity to deliver the service;
 - ∴ Secures investment in service delivery infrastructure (i.e. plant, M.I.S)
 - ∴ Secures economies of scale;
 - ∴ Increase the service performance level; and
 - ∴ Maintains and improves the customer focus.

3.3 The Long and Short list of options

The Long List – Service Delivery model options

- 3.3.1 The long list of potential service delivery options was developed in conjunction with key officers, with the initial assessment being undertaken at the Foundation Workshop held in February 2007.
- 3.3.2 The workshop's activity considered the service delivery models available to the Council to support the overall "Post 2009 Strategy" and the potential advantages and disadvantages of each.
- 3.3.3 The determined final long list of delivery options are briefly illustrated below. Further information on the process is detailed in the Strategic Business Case.

In-Sourcing (The Status Quo)

- 3.3.4 The Council retains ownership of, and responsibility for, the provision of the service, but complements in-house resources with the support of private sector service providers. This support is procured through traditional term contracts and provides skills and capacity not available within the authority.

Public/Public Partnership

- 3.3.5 The City and one or more other local or public authorities join together to effect service delivery of some or all of their activities. The arrangement may involve pooling of budgets and functions and the sharing of technology, staff and accommodation. There are a number of options for co-ordination of resources.

Strategic Partnership

- 3.3.6 In this model the Council would commit to a long term partnership, typically up to 25 years, with one or more external service provider, whether in the private sector or public sector, for the provision of an individual service or, more commonly, a range of services.

Externalisation

- 3.3.7 In this model the Council will contract with a private provider over a short period of time to provide certain services in place of the local authority. This type of contract generally involves a total transfer of the service provision to the service provider.
- 3.3.8 The service provider will secure access to, or acquire from the Council whatever assets are required to provide the services, which would include employees who would transfer under TUPE regulations.
- 3.3.9 The Council would retain a client role for contract management and performance monitoring with a limited number of staff.

Fully In-House

- 3.3.10 The City would recruit sufficient appropriately skilled staff to deliver all aspects of the service in-house.

Public/Private Partnership

- 3.3.11 A Public/Private Partnership service model is a partnership between the City and a private sector partner over a long period which builds on the experience gained by the City through the existing arrangements, and by the private sector from the lessons of conventional externalisation and partnering arrangements elsewhere.
- 3.3.12 The nature of the partnership envisages a collaborative role between the City and the private sector partner in relation to the discharge of the private sector partner's obligations under the arrangement.
- 3.3.13 The partners would jointly agree on the service requirements and there is potential to share the risk and rewards of any service improvements and/or efficiencies through price performance arrangements.

The Council's choice

- 3.3.14 Following engagement with stakeholders the Council's preferred service delivery option was determined as Public/Private partnership. This strategy was given approval by members in October 2007 along with the authority to develop a long term delivery mechanism in order that Cabinet may determine the most appropriate way forward.

The Short List - Partnering Model options

- 3.3.16 The Council has decided to consider the various partnering models that sit within the public/private service delivery model. When considering this, there can be in reality a whole host of variations to models. In the interest of clarity, four partnering models have been identified, that broadly cover the options available for the Council to consider. These options are illustrated in Figure 6.
- 3.3.17 Four partnering model options have been identified for further consideration in the Outline Business Case. These are:
- ! **“Virtual” Partnership** – Lead by an integrated Partnering Board that comprises of representatives of all partners. Both SCC and Partner organisation resources in independent management structure and separate locations. This model has the closest similarities to the partnerships currently in operation at the Council and is discussed in further detail in section 3.6.
 - ! **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 and is discussed in further detail in section 3.6.
 - 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. This model is discussed in further detail in section 3.6.
 - ! **Full Integration Partnership** - Lead by an integrated Partnering Board that comprises of 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 and is discussed in further detail in section 3.6.

It is important to note that there are potentially two main forms a Full Integration Partnership could take: a Strategic Service Partnership or a Joint Venture (a Special Purpose Vehicle would be a possibility if the Council was looking to the private sector to raise a large capital receipt – which it is not). All three models would deliver a similar level of integration over and above the previous three options. For the purposes of the options analysis there is no need to differentiate between the forms.

Annex 2 details the distinctions between a Strategic Service Partnership and a Joint Venture. In summary, a Joint Venture carries a greater risk to the Council, in addition to requiring increasing implementation timescales and costs. A JV's main advantage over a SSP is that it provides the Council with an ability to generate new business and a profit, Given that this is not the aim of the Council in this project it can be assumed that a SSP is the recommended form for a Full-Integration Partnership.

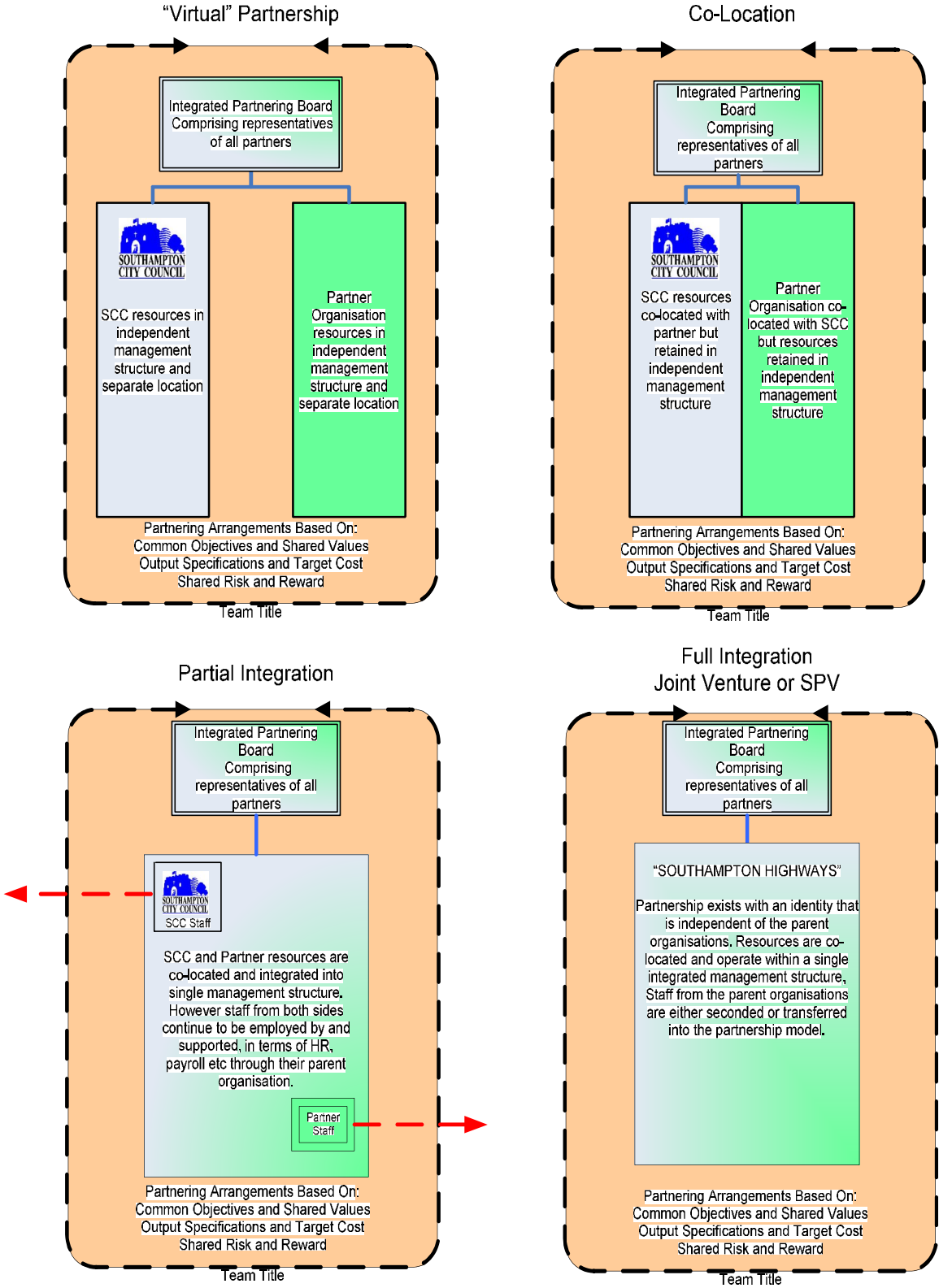


Figure 6 - Partnering Models

3.4 SWOT analysis

3.4.1 To further assess and identify the most suitable partnering model for Southampton City Council, SWOT analyses for each model has been undertaken and are detailed below in Tables 6 - 9.

Table 6 - “Virtual” Partnership

Strengths	Weaknesses
<ul style="list-style-type: none"> • Reduced Staff and Trade Union issues (no TUPE) • Additional Resource available • Increased Flexibility • Additional skills and experience • Improved technology/working practices • No additional recruitment required • Shared risk • More stable connection with the market 	<ul style="list-style-type: none"> • No reduction in overhead • Conflicting Terms and Conditions • Management systems and practice not linked • Duplication • No shared support services
Opportunities	Threats
<ul style="list-style-type: none"> • Skills transfer • Option to embrace innovated techniques • Exact cultural change • Increased credibility (Improvement in the Publics perception) • A more effective and co-ordinated service • Increase in ownership • Improvements in performance and resource management • Ability to deliver improved VFM • Ability to deliver improvements in Highways • Ability to improve asset management • Ability to deliver economies of scale 	<ul style="list-style-type: none"> • Potential for conflict of interest • Lack of effective co-ordination and communication • Potential lack of ownership • Lack of Clarity of roles and responsibilities • Insufficient work • Client/Contractor_relationship continues (Silo mentality) • Poor performance of either party • Private partner bankruptcy • Ineffective management board • Contract Failure • Deterioration in Public Perception • Inability of SCC to deal with required cultural changes

Table 7 - Co-location Partnership

Strengths	Weaknesses
<ul style="list-style-type: none"> • Improved integration • Improved common culture • Improved communication and co-Ordination • Reduced Staff and Trade Union issues (no TUPE) • Additional Resource availability • Increased Flexibility • Additional skills and experience • Improved technology/working practices • No additional recruitment required • Shared risk • More stable connection with the market • Reduction in overheads/costs 	<ul style="list-style-type: none"> • Conflicting Terms and Conditions • Management systems and practice not linked • No shared support services • Duplication
Opportunities	Threats
<ul style="list-style-type: none"> • Improved Trust/motivation • Skills transfer • Option to embrace innovated techniques • Exact cultural change • Increased credibility (Improvement in the Publics perception) • A more effective and co-ordinated service • Increase in ownership • Improvements in performance and resource management • Ability to deliver improved VFM • Ability to deliver improvements in Highways • Improved facilities • Ability to improve asset management • Ability to improve maintenance management • Ability to derive economies of scale • Ability to provide additional investment in technology 	<ul style="list-style-type: none"> • Potential for conflict of interest • Lack of effective co-ordination and communication • Potential lack of ownership • Lack of Clarity of roles and responsibilities • Insufficient work • Client/Contractor_relationship continues (Silo mentality) • Poor performance of either party • Private partner bankruptcy • Ineffective management board • Contract Failure • Deterioration in Public Perception • Poor practice filters through to other organisation • Inability of SCC to deal with required cultural changes

Table 8 - Partial Integration Partnership

Strengths	Weaknesses
<ul style="list-style-type: none"> • Clear management structure • Reduced Staff and Trade Union issues (no TUPE) • Improved integration and control • Common Culture • Reduced duplication • Improved communication & co-ordination • Additional Resource, skills and Experience • Increased Flexibility • Improved technology/working practices • Shared risk • More stable connection with the market • Reduction in overheads/costs 	<ul style="list-style-type: none"> • Dual support services • Conflicting Terms and Conditions • Management systems and practice not linked • Duplication
Opportunities	Threats
<ul style="list-style-type: none"> • Improved Trust/motivation • Skills transfer • Exact cultural change • Increased credibility (Improvement in the Publics perception) • A more effective and co-ordinated service • Improvements in performance and resource management • Ability to deliver improved VFM • Ability to deliver improvements in Highways • Improved facilities and ownership • Ability to respond positively and rapidly to changes in service requirements and demands • Ability to improve financial control • Ability to improve asset management • Ability to improve maintenance management • Ability to derive economies of scale • Ability to deliver an innovative, customer focused, quality driven service • Ability to deliver reduced environmental impact and carbon foot print for service 	<ul style="list-style-type: none"> • Bad practice manifests itself • Potential for conflict of interest • Lack of effective co-ordination and communication • Potential lack of ownership • Insufficient work • Poor performance of either party • Private partner bankruptcy • Ineffective management board • Contract Failure • Deterioration in Public Perception • Inability of SCC to deal with required cultural changes

Table 9 - Full Integration Partnership

Strengths	Weaknesses
<ul style="list-style-type: none"> • Clear management structure • Improved integration and control • Shared Support Services • Common Culture • Reduced duplication • Improved communication and co-Ordination • Additional Resource, skills and Experience • Increased Flexibility • Improved technology/techniques • No additional recruitment required • Shared risk • More stable connection with the market • Reduction in overhead/costs 	<ul style="list-style-type: none"> • Significant cultural and process change requirements • Managing private to public sector interfaces will be complex • Potential risk of personnel complexity • Increased Staff and Trade Union issues
Opportunities	Threats
<ul style="list-style-type: none"> • Generate additional income through external work • Improved accountability • Improved Trust/motivation • Skills transfer • Option to embrace innovated techniques • Exact cultural change • Increased credibility (Improvement in the Publics perception) • A more effective and co-ordinated service • Improvements in performance and resource management • Ability to deliver improved VFM and improvements in Highways • Improved facilities and ownership • Ability to respond positively and rapidly to changes in service requirements and demands • Ability to improve financial control • Ability to improve asset management • Ability to improve maintenance management • Ability to derive economies of scale • Ability to provide additional investment in technology • Ability to deliver an innovative, customer focused, quality driven service • Ability to deliver reduced environmental impact and carbon foot print for service 	<ul style="list-style-type: none"> • Perceived as a means to outsource • Bad practice manifests itself • Lack of effective co-ordination and communication • Potential lack of ownership • Lack of Clarity of roles and responsibilities • Insufficient work • Client/Contractor_relationship continues (silo mentality) • Poor performance of either party • Private partner bankruptcy • Ineffective management board • Contract Failure • Deterioration in Public Perception • Failure to apply TUPE regulations • Inability of SCC to deal with required cultural change

Summary

3.4.2 From consideration of the SWOT analysis's for each model, the following key points have been identified:

- The more integration that exists the greater the opportunities are for delivering an effective service and the outcomes required
- Models outlining increased integration potentially deliver more of the Critical Success Factors detailed in the business cases. These include:
 - the ability to respond rapidly to changes in service requirements and demands,
 - the ability to deliver improved value for money,
 - the ability to improve financial control,
 - the ability to improve asset management,
 - the ability to improve maintenance management,
 - ability to derive economies of scale,
 - ability to provide additional investment in technology,
 - ability to deliver an innovative, customer focused, quality driven service,
 - ability to deliver reduced environmental impact and carbon foot print for service.
 - Sustained commitment of Both Parties at a senior level
 - Drives cultural synergy and shared values
 - Secures genuine and effective empowerment
 - Supports effective alignment of structure and processes
 - Maximises potential benefits to both parties
 - Secures appropriate resource capacity and capacity building
 - Enables learning and development within the partnership and internal and external networking
 - Supports effective communication, engagement and management of expectations
- Models outlining increased integration do carry more risks, but also have the potential to provide more reward in respect to service delivery
- The closer the partnership to full integration the greater the impact on staff

3.5 Opportunities for Innovation and/or collaboration with others

3.5.1 In the public/private partnership model there is considerable scope for innovation and collaboration with others, in both the design and delivery of services.

3.5.2 It is accepted that in a modern service delivery environment, the willingness and ability to innovate can deliver significant benefits, as can the access to a wider base of skills, experience and resources that collaboration is intended to secure.

3.5.3 In terms of innovation, the project team identified two distinct areas where this could occur. Firstly, there is an opportunity to be innovative in the design of the Service and the delivery model that supports it. This presents an opportunity for the council to consider moving away from traditional service design thinking, explore alternative solutions and consider the wider benefits they may bring. However, any potential benefits will obviously need to be balanced against the potential for the Council to effectively manage the risks that will inevitably accompany a new approach to service design.

- 3.5.4 The second potential area for innovation is in the delivery of the Service itself, and in terms of Highways, this is perhaps where the biggest opportunity exists. The Highways industry is constantly seeking to evolve, in terms of materials, machinery, design and construction methods, and innovation is central to this. The industry is continually looking for ways to work more safely and more efficiently, to reduce costs and improve value for money, to better engage with customers and reduce disruption and to minimise environmental impact, and the Council should seek to ensure it is in the best possible position to benefit from this.
- 3.5.5 Collaboration is also recognised as presenting significant opportunities for the Service. Establishing strong collaborative links, both formal and informal, with other public sector providers and the private sector has the potential to increase the opportunities for learning from the experiences of others, sharing best practice and benchmarking performance. When taken to its fullest extent, in the form of partnering, collaboration also has the potential to reduce overheads and deliver significant economies of scale.
- 3.5.6 Appendix B – Partnership Opportunities details the current Highways contracts in operation for the local authorities surrounding Southampton City Council. At this present time there is limited opportunity to collaborate with these adjacent authorities. However, we would recommend that contact and communication is maintained and where appropriate further developed to take advantage of future opportunities. Additionally, the Council should ensure that the OJEU notice and contract are flexible enough to allow other public sector bodies to buy-in.
- 3.5.7 Currently there are two contacts detailed in the Table of Appendix B that Southampton could explore further if required. These are:
- ‡ The use of the Temporary Technical Resources Framework through Hampshire County Council
 - ‡ Highways Agency Contracts as an interims

3.6 Implementation Options

Introduction

- 3.6.1 This section of the options appraisal is to discuss the implementation options for the four proposed partnering models:
- ‡ “Virtual” Partnership
 - ‡ Co-location Partnership
 - ‡ Partial Integration Partnership
 - ‡ Full Integration Partnership
- 3.6.2 As part of these options we will discuss the following for each:
- ‡ Timescales
 - ‡ Change management
 - ‡ Implementation Detail
- 3.6.3 Once the final partnering model has been identified a programme for its implementation can be created inline with Southampton City Councils requirements.

- 3.6.4 The option that receives final approval will require further; planning and effective execution to facilitate as smooth a transition as possible.

“Virtual” Partnership

Timescales

- 3.6.5 Of all the models being considered the “Virtual” partnership has potentially the shortest implementation timescales due to:

- ‡ **Integration** – With this model the integration of staff is not required. There will be a requirement to integrate management systems and time will need to be allocated to this process.
- ‡ **Location** - No requirement to re-locate, unless the Council proposes a new site due to the sale of Town Depot
- ‡ **Management Structure** - No significant changes in management structure apart from the introduction of an Integrated Partnering Board
- ‡ **Processes and Procedures** - Limited processes and procedures changes
- ‡ **Cultural Change** - Limited cultural change as SCC personnel remain under the employment of the council
- ‡ **Synergy** - This model is closest to the current model in operation by Southampton City Council

Change Management

- 3.6.6 Of all the models being considered the “Virtual” partnership has the least significant change management to deal with.

- ‡ **Structure change** - The “virtual” partnership model has the least structure change of the four partnering models being considered. Both the SCC and Partner organisation resources and structure will remain basically the same, with both organisations reporting to an integrated partnering board comprising of representatives of all the partners
- ‡ **Cultural change** – With any new initiative, no matter what the scale there will always be cultural change issues to address. Although, again the least significant with this particular model, cultural change issues need to be recognised and managed appropriately. In general although individuals show a reluctance to change, this model will give the minimum of impact to the officers and Trade Unions involved in comparison to the other models, due to individuals remaining within the employment of SCC. An effective communication and engagement strategy and effective management are a prerequisite.
- ‡ **Business change** – This model is the closest to the current model in operation at Southampton and therefore should require the least amount of business change. However, there will need to be a certain amount of alignment introduced to prevent unnecessary duplication. Areas to be considered include:

Processes where possible should be aligned to alleviate as much as possible the different systems of each organisation

Working Practices where possible should be aligned to alleviate as much as possible the different operating practices of the organisations

Management systems will require alignment

Implementation Detail

3.6.7 The following bullet points discuss briefly implementation details for the “Virtual” partnership model:

- ‡ **Phased introduction** – Due to the synergies with the current model, there is no significant benefit in introducing this model if chosen in a designated phased approach. However, as stated above, the next stage of the process would be to complete a project plan for implementation. This would further identify the process and whether a phased introduction is warranted.

- ‡ **Practicalities** - This model is the closest to the current model in operation at Southampton and therefore should in practice require the least effort to exact the change. However the following are some of the issues that will still require consideration:

- Effective planning and management of the process of implementation
- Management processes and procedures need to be clearly identified

- An appropriate Training and Development strategy. This will further alleviate the impact on staff regarding cultural change

- Sufficient human and physical resources will be required to accommodate changes and implement the model as soon as possible. An example of this is in the resolution of problems/issues that arise as the model is implemented.

- Development of engagement and communication strategies to keep all relevant parties informed

- The service provided must still be maintained throughout the implementation process

- Assets need to clearly identified and managed

Co-location Partnership

Timescales

3.6.8 Of the four partnership models being considered the Co-location partnership has potentially the second shortest implementation timescales due to:

- ‡ **Integration** – With this model the integration of staff is not required. However there would be a certain level of integration due to being co-located. Management systems will also require integration and time will need to be allocated to this process.

- ‡ **Location** – Time needs to be set aside to find an adequate site for the co-location of this model. Areas to be consider will include:

- Current facilities capacity/appropriateness. Issue of the potential sale of Town Depot to be considered

- New site availability/capacity
- Logistics

- IT and support

- Operational processes and procedures
- Resource availability

- Funding to enable model implementation

- ‡ **Management Structure** - No significant changes in management structure apart from the introduction of an Integrated Partnering Board

- ‡ **Processes and Procedures** - Limited processes and procedure changes required
- ‡ **Cultural Change** – An increase in cultural change issues due to co-location. However, SCC personnel still remain under the employment of the council
- ‡ **Synergy** - This model has similarities to the current model in operation by Southampton City Council

Change Management

3.6.9 Of the four partnership models being considered the Co-location partnership has more change management issues to deal with than the “Virtual” model, but potentially less than both the Partial and Full Integration models.

- ‡ **Structure change** - The Co-location partnership model has a similar amount of structure change as the “Virtual” model, but significantly less than both the Partial and Full Integration models. Both the SCC and Partner organisation resources and structure will remain basically the same, with both organisations reporting to an integrated partnering board comprising of representatives of all the partners
- ‡ **Cultural change** – With any new initiative, no matter what the scale there will always be cultural change issues to address. Cultural change issues will increase with this model in comparison to the “Virtual” model and will need to be recognised and managed appropriately. In general, although individuals show a reluctance to change, this model will give a reduced amount of impact to the officers and Trade Unions involved in comparison to both the Partial and Full Integration models, due to individuals remaining within the employment of SCC. An effective communication and engagement strategy and effective management are a prerequisite. Due to Co- location the Integrated Partnering Board should take steps to integrate both cultures, hence providing a cohesive and effective service.
- ‡ **Business change** – This model has similarities to the current model in operation at Southampton and therefore should not require significant amounts of business change. However, there will need to be a certain amount of alignment introduced to prevent unnecessary duplication. Areas to be considered include:
 - Processes where possible should be aligned to alleviate as much as possible the different systems of each organisation
 - Working Practices where possible should be aligned to alleviate as much as possible the different operating practices of the organisations
 - Management systems will require alignment

Implementation Detail

3.6.10 The following bullet points discuss briefly implementation details for the Co-location model:

- ‡ **Phased introduction** – Due to the synergies with the current model, there is no significant benefit in introducing this model if chosen, in a designated phased approach. However, this would be dependent on the location and its readiness for operation etc. The next stage of the process would be to complete a project plan for implementation and this would further identify the process and whether a phased introduction is warranted.
- ‡ **Practicalities** - This model has similarities to the current model in operation at Southampton and therefore should in practice require minimal effort in comparison to both the Partial and Full Integration models to exact the change. However, the following are some of the issues that will still require consideration:
 - Effective planning and management of the process of implementation
 - Management processes and procedures need to be clearly identified

An appropriate Training and Development strategy. This will further alleviate the impact on staff regarding cultural change

Sufficient human and physical resources will be required to accommodate changes and implement the model as soon as possible. An example of this is in the resolution of problems/issues that arise as the model is implemented.

Development of engagement and communication processes to keep all relevant parties informed

The service provided must still be maintained throughout the implementation process

Assets need to be clearly identified and managed
Identification/preparation of the chosen location

Partial Integration Partnership

Timescales

3.6.11 Of the four partnership models being considered the Partial Integration partnership has similar timescales to the Full Integration partnership with respect to implementation due to:

- ‡ **Integration** – With this model the integration of staff into a single management structure is required. The organising and the implementation of this will require time to be allocated. However, the Support Services are not integrated which although increases inefficiency within the model, does reduce the timescale for implementation. The management systems will also be required to integrate and time will need to be allocated to this process.
- ‡ **Location** – Time needs to be set aside to find an adequate site for the co-location of this model. Areas to be considered will include:

 - Current facilities capacity/appropriateness. Issue of the potential sale of Town Depot to be considered
 - New site availability/capacity
 - Logistics
 - IT and support
 - Operational processes and procedures
 - Resource availability
 - Funding to enable model implementation
- ‡ **Management Structure** - Significant changes in management structure are required for this model, including the introduction of an Integrated Partnering Board level. The organising and the implementation of this structure will require a time allocation.
- ‡ **Processes and Procedures** – Processes and Procedures need to be reviewed and amalgamated inline with the requirements of the partnership
- ‡ **Cultural Change** – An increase in cultural change issues due to co-location and a single management structure. However, SCC personnel still remain under the employment of the council.
- ‡ **Synergy** - This model has limited similarities to the current model in operation by Southampton City Council. It needs to be recognised that both SCC and Partner organisations will require time to become an effective single organisation.

Change Management

3.6.12 Of all the four partnership models being considered the Partial Integration partnership model has significantly more change management issues to deal with than both the “Virtual” and Co-location models, but potentially less than the Full Integration model.

‡ **Structure change** - The Partial Integration partnership model has a significant amount of structure change in comparison to both the “Virtual” and Co-location models, but less than the Full Integration models. Both the SCC and Partners management structures/resources are amalgamated into one management structure, reporting to an integrated partnering board comprising of representatives of all the partners. This change over will have to be effectively managed to ensure a smooth transition to the model with sufficient time allocated.

‡ **Cultural change** – With any new initiative, no matter what the scale there will always be cultural change issues to address. Cultural change issues will increase with this model in comparison to both the “Virtual” and Co-Location models and will need to be recognised and managed appropriately. This model will give a reduced amount of impact to the officers and Trade Unions involved in comparison to the Full Integration models, due to individuals remaining within the employment of SCC. An effective communication and engagement strategy and effective management are a prerequisite. Due to the single management structure and co- location, the Integrated Partnering Board should take steps to integrate both cultures, hence providing a cohesive and effective service. Of all the models this option has the potential for the most difficulty in exacting cultural change as there are two tiers of staff working side by side on different terms and conditions.

‡ **Business change** – This model has limited similarities to the current model in operation by Southampton City Council and will therefore require increased amounts of business change. Furthermore, there will need to be a certain amount of alignment introduced to prevent unnecessary duplication. Areas to be considered include:

Processes where possible should be aligned to alleviate as much as possible the different systems of each organisation

Working Practices where possible should be aligned to alleviate as much as possible the different operating practices of the organisations

Management systems may require alignment

Implementation Detail

3.6.13 The following bullet points discuss briefly implementation details for the Partial Integration partnership model:

‡ **Phased introduction** – Although benefits may arise from introducing this model if chosen, in a designated phased approach. With effective planning and co-ordination a phased introduction will hamper the amalgamation process. Therefore, it is recommended not to implement a phased introduction. The next stage of the process would be to complete a project plan for implementation and this would further identify the process in order to facilitate a smooth partnership introduction.

‡ **Practicalities** - This model has limited similarities to the current model in operation at Southampton and therefore will require significantly more effort to implement in comparison to both the “Virtual” and Co-Location models. The following are some of the issues that will require consideration:

Effective planning and management of the process of implementation
Management processes and procedures need to be clearly identified

An appropriate Training and Development strategy. This will further alleviate impact on staff regarding cultural change

Sufficient human and physical resources will be required to accommodate changes and implement the model as soon as possible. An example of this is in the resolution of problems/issues that arise as the model is implemented.

Development of engagement and communication processes to keep all relevant parties informed

The service provided must still be maintained throughout the implementation process

Assets need to be clearly identified and managed
Identification/preparation of the chosen location

Full Integration Partnership

Timescales

3.6.14 Of the four partnership models being considered the Full Integration Partnership model has similar timescales to the Partial Integration partnership with respect to implementation due to:

- ‡ **Integration** – With this model the integration of staff into a single management structure is required. The organising and the implementation of this will require time to be allocated. Furthermore, the Support Services are to be integrated which further increases the timescale but will improve efficiency within the model. The management systems will also be required to integrate and time will need to be allocated for this.
- ‡ **Location** – Time needs to be set aside to find an adequate site for the Full Integration model. Areas to be considered will include:

 - Current facilities capacity/appropriateness. Issue of the potential sale of Town Depot to be considered
 - New site availability/capacity
 - Logistics
 - IT and support
 - Operational processes and procedures
 - Resource availability
 - Funding to enable model implementation
- ‡ **Management Structure** - Significant changes in management structure are required for this model, including the introduction of an Integrated Partnering Board level. The organising and the implementation of this structure will require a time allocation.
- ‡ **Processes and Procedures** – Processes and Procedures need to be reviewed and amalgamated inline with the requirements of the partnership
- ‡ **Cultural Change** – An increase in cultural change issues due to co-location and the single management structure would be expected. Time will need to be allocated to exact positive cultural change.
- ‡ **Synergy** - This model has limited similarities to the current model in operation by Southampton City Council. It needs to be recognised that both SCC and Partner organisations will require time to become an effective single organisation.

Change Management

3.6.15 Of all the four partnership models being considered the Full Integration partnership model has significantly more change management issues to deal with than all the other models.

‡ **Structure change** - The Full Integration partnership model has a significant amount of structure change in comparison to the other three options. Both the SCC and Partners management structures/resources are amalgamated into one management structure, reporting to an integrated partnering board comprising of representatives of all the partners. This change over will have to be effectively managed to ensure a smooth transition to the model with sufficient time allocated.

‡ **Cultural change** – With any new initiative, no matter what the scale there will always be cultural change issues to address. Cultural change issues will increase with this model in comparison to all the other models and will need to be recognised and managed appropriately. An effective communication and engagement strategy and effective management are a prerequisite. Due to the single management structure and co-location, the Integrated Partnering Board should take steps to integrate both cultures, hence providing a cohesive and effective service. This model has the advantage of exacting cultural change over the Partial Integration partnership as staff work side by side on the same terms and conditions

‡ **Business change** – This model has limited similarities to the current model in operation by Southampton City Council and will therefore require increased amounts of business change. Furthermore, there will need to be a certain amount of alignment introduced to prevent unnecessary duplication. Areas to be considered include:

Processes where possible should be aligned to alleviate as much as possible the different systems of each organisation

Working Practices where possible should be aligned to alleviate as much as possible the different operating practices of the organisations

Management systems will require alignment

Implementation Detail

3.6.16 The following bullet points discuss briefly implementation details for the Full Integration model:

‡ **Phased introduction** – Although benefits may arise from introducing this model if chosen, in a designated phased approach. With effective planning and co-ordination a phased introduction will hamper the amalgamation process. Therefore, it is recommended not to implement a phased introduction. The next stage of the process would be to complete a project plan for implementation and this would further identify the process in order to facilitate a smooth partnership introduction.

‡ **Practicalities** - This model has limited similarities to the current model in operation at Southampton and therefore will require significantly more effort to implement in comparison to all three of the other models. The following are some of the issues that will require consideration:

Effective planning and management of the process of implementation

Management processes and procedures need to be clearly identified

An appropriate Training and Development strategy. This will further alleviate the impact on staff regarding cultural change

Sufficient human and physical resources will be required to accommodate changes and implement the model as soon as possible. An example of this is in the resolution of problems/issues that arise as the model is implemented.

parties informed

The service provided must still be maintained throughout the implementation process

Assets need to clearly identified and managed

Identification/preparation of the chosen location

Summary

- 3.6.17 Due to the “Virtual” partnership model being the closest to the arrangements that are currently in operation at Southampton this will naturally have the easiest implementation process. As you progress towards the full integration model more issues arise.
- 3.6.18 As you progress through the options towards the Full Integration option the implementation difficulties/issues will plateau or increase only marginally. Particularly in regards to the Partial Integration and Full Integration models where there is no considerable difference in effort required to implement.
- 3.6.19 The Partial Integration model has potential to be the most fraught with ongoing operational difficulties and time related issues due to a blurring of the lines e.g management reporting Officers to Private Sector Managers and vice versa.
- 3.6.20 With all the factors considered above the following is the order of implementation in relation to potential ease of introduction for Southampton City Council:
- 1 - “Virtual” Partnership
 - 2 - Co-location Partnership
 - 3 - Partial Integration Partnership
 - 4 - Full Integration Partnership
- 3.6.21 The implementation issues for options 3 and 4 are relatively similar with option 4 potentially having marginally more obstacles to overcome.
- 3.6.22 As you would expect, and is explained throughout the options appraisal, this would not necessarily be the order in respect of benefits etc.
- 3.6.23 With effective planning and co-ordination a phased introduction will hamper the amalgamation process for all the options. Therefore, it is recommended not to implement a phased introduction. The next stage of the process would be to complete a project plan for implementation and this would further identify the process in order to facilitate a smooth partnership introduction
- 3.6.24 Once the final partnering model has been identified a program for the smooth implementation can be created inline with Southampton City Councils requirements.
- 3.6.25 Managers of services involved will need to ensure their staff remain focused and that sufficient resources are made available to accommodate the changes.
- 3.6.26 An effective communication and engagement strategy and effective management are a prerequisite for all the partnering model options
- 3.6.27 A new location is likely to be required for all the options due to the Council’s potential decision to sell Town Depot. Part of the competitive dialogue process will be to explore with bidders various options for developing a depot site. However, regardless of the type

of partnership it is crucial for the Council to retain the rights to the lease for the depot. This project is already closely integrated with the project to relocate the town depot with the preferred option being that the Council provides, at the very least, land and ground works for a new depot for the Partnership.

3.7 Detailed options appraisal – Partnering Models Introduction

3.7.1 The detailed options appraisal for identifying the preferred option of partnering model has been undertaken in the following stages:

- ! Consultation with key officers
- ! Off-site assessment and production of:
 - initial specification of Critical Success Factors for a model
 - risk identification
 - initial scoring
- ! Senior officer's Challenge Workshop.

Options appraisal methodology

3.7.2 Whilst also complying with OGC and other best practice guidelines, the methodology for the option appraisal follows the approach of the options appraisal undertaken in the Strategic Business Case and adheres to the corporate approach defined by the Council, using the options appraisal toolkit developed internally by Southampton.

3.7.3 The toolkit is designed to link Council objectives to the decision-making process. It provides the capability to consider all of the options relevant to the delivery of a project and has the potential to link them to estimated "whole life" costs and risks for comparison, analysis and evaluation. It is normally used where the total cost of a project exceeds £2m (either capital or revenue, multiplied by estimated life or a combination of both).

3.7.4 Though fundamentally sound the toolkit was designed to assist decisions on relatively focused issues, and whilst the basic principles remained intact, translating it for use on a service wide appraisal required some consideration.

3.7.5 The Council Officer responsible for the corporate approach to option appraisal, was consulted by the project team when developing the Strategic Business Case and engaged in the appraisal itself in order to ensure satisfactory interpretation and compliance with the required standard.

Critical success factor (CSF's)

3.7.6 As part of an off-site assessment, Tribal drafted CSF's for the partnering models. These CSF's were introduced to the senior officer's workshop for discussion and challenge. No significant changes to the original CSF's were required and these are detailed in the options appraisal outputs table in Appendix D.

3.7.7 Furthermore, it was agreed at the workshop that the original set of CSF's utilised when carrying out the service model options appraisal would be scored against for the partnering model options appraisal. The details of these are illustrated in Appendix C.

CSF's weightings

- 3.7.8 The CSF's were each given a weighting of between 0 and 5, where 0 indicated an option was deemed to have no impact on the achievement of a particular CSF and 5 indicated it would have a major impact.
- 3.7.9 An initial assessment of the weightings was provided by Tribal and this was then opened to challenge at the subsequent senior officer workshops. Minor changes to certain weightings were discussed and where required, amended after general consensus. The weighting for all the CSF's utilised are illustrated in Table 10 below.

Table 10 – Critical Success Factors and weighting

Critical Success Factors	Weighting
Sustained commitment of Both Parties at a senior level	4
Drives cultural synergy and shared values	3
Secures genuine and effective empowerment	5
Supports effective alignment of structure and processes	5
Maximises potential benefits to both parties	4
Secures appropriate resource capacity and capacity building	4
Enables learning and development within the partnership and internal and external networking	3
Supports effective communication, engagement and management of expectations	5
flexibility – ability to support the “flexible” and the long term delivery model	5
the ability to respond positively and rapidly to changes in service requirements and demands	5
the ability to deliver improved value for money (includes added value and Commercial benefits)	5
the ability to improve financial control	4
the ability to improve asset management	4
the ability to improve maintenance management	4
ability to derive economies of scale	3
ability to provide additional investment in technology	3
ability to deliver an innovative, customer focused, quality driven service	3
ability to deliver reduced environmental impact and carbon foot print for service	3

Scoring the options

- 3.7.10 Each option was scored for their ability to support the delivery of each CSF. The scoring was applied within a range of 4, from 0 to 3, where 0 indicated no impact; 1 indicated a peripheral contribution; 2 indicated some contribution and 3 indicated major and demonstrable support for the delivery of the CSF.
- 3.7.11 Whilst there were a number of minor changes within individual assessments of each option, the overall outcome, in terms of preferred option, remained the same as the initial assessment.

Outcomes from Senior Officer Workshop

- 3.7.12 The following are outcomes from the senior officer workshop and are detailed in the output appraisal table in Appendix D:
- 3.7.13 The partnering models scores against meeting the critical success factors where in the following order:
1. Full Integration partnership = 96%
 2. Partial Integration partnership = 68%
 3. Co-location partnership = 42%
 4. “Virtual” partnership = 37%
- 3.7.14 The four partnership models were also assessed against the original Strategic Business Case CSF’s to determine their contribution to the main drivers for this project. The results of these second set of CSF’s are detailed in Appendix C and outlined below.
- Full Integration partnership = 97%
Partial Integration partnership = 67%
Co-location partnership = 51%
“Virtual” partnership = 33%
- 3.7.15 There was a general consensus that the Full integration model was the most suitable partnership model inline with the scores above. It was therefore agreed to put this forward as the preferred option.
- 3.7.16 The group also agreed that further stakeholder engagement should take place as the project progresses.

3.8 Risk Assessment

- 3.8.1 Each of the partnering model options was assessed against a comprehensive range of risks, and scored accordingly. The details of this are shown in Appendix E, which also provides the framework for a risk register for the preferred option.
- 3.8.2 The process used a standard risk assessment methodology, where potential risks are identified and scored based on their likelihood and potential impact. The scores used were based on the considered level of residual risk, after basic mitigation measures had been taken into account.
- 3.8.3 Based on their score, individual risks were rated as either “low”, “medium” or “high”, and were used to compile an overall risk rating for each option using the same definitions. The outputs from this activity are also summarised in Appendix E.

3.9 Economic Benefits Models Introduction

3.9.1 The purpose of this section of the Economic Case is to provide a baseline financial assessment of the potential efficiency savings for the four partnership models options currently under consideration. The partnering model options identified are:

- ‡ **Option 1** – Virtual
- ‡ **Option 2** – Co-location
- ‡ **Option 3** – Partial
- ‡ **Option 4** – Full Integration

3.9.2 This modelling will allow Southampton City Council's councillors and staff to further consider and determine the preferred partnership option, allowing the project to progress into the detailed business case stages.

3.9.3 The information detailed has been calculated utilising the current information available from Southampton City Council and inline with the parameters, assumptions outlined in this section and current industry best practice/guidance.

Basis of the Figures

3.9.4 The following points detail the basis of the figures utilised for determining the economic benefits that each model could deliver. These include:

- ‡ The financial year runs from the 1st April to the 31st March
- ‡ The total capital and revenue budgets projected from the 2008/2009 figures are at the time of writing this document correct and have been supplied by Southampton City Council
- ‡ The budgets for each service within the scope of the partnership are based on those provided in the 2008/2009 baseline details in Tables 11 and 12
- ‡ Additional Prudential borrowing has been approved and is included in the highways capital budget

Assumptions

3.9.5 At this stage in the process, the following assumptions have been made in order to illustrate the economic benefits that each model could deliver. These include:

- ‡ Revenue costs of delivering the services have been included in the calculations, including the relevant employer on-costs
- ‡ For the sake of clarity and the purpose of these calculations, inflation has not been accounted for in the subsequent baseline calculations. Similarly, no Net Present Values (NPV's) are included.
- ‡ It is assumed the partnership will start on the 1st September 2010, with efficiency savings being phased in from this date
- ‡ All savings will be re-invested into the partnership
- ‡ Full savings, will not be delivered in the first year of the partnership. In reality savings are likely to start to be accrued from the second year of the partnership.
- ‡ No amounts for major capital schemes are included in the figures. Although, in the future if money is made available for major highway capital schemes then these will be expected to go through the partnership. These could equate to £2-4 million per

annum and which is why the City Centre and Major projects revenue has been included in the revenue budget in Table 12

Further analysis required

3.9.6 The following areas will require further analysis in order to reinforce the economic benefits each model could deliver. These include:

- ! The baseline figures are dependent on the final scope of services, therefore the Efficiency figures are estimates. Therefore, the baseline calculations are specific to highways services detailed in the scoping section of the Strategic Context and Business Need sections. The budget information is detailed in Tables 11 and 12
- ! Sensitivity Analysis is required around the possible savings profiles ranging from a lower to higher savings assumption. This work should include analysis of changes in implementation and client monitoring costs

Contract Length

3.9.7 The contract length must be over a long period of time, 10 years plus up to 5 years extension. The contract needs to be over a longer period of time than traditional externalisation contracts in order to:

- ! build a relationship with the partner to develop the partnership approach to delivering services
- ! ensure a substantial enough period for the partner to benefit from an initial upfront investment in service delivery infrastructure (ie plant, management systems etc)

Baseline Funding Information

3.9.8 Tables 11 and 12 below, detail the Capital and Revenue funding available for the Highways services based on the 2008/2009 figures.

Table 11: Capital Highways Budget 2008/2009

Type	Description	Value (£)
Capital Highways	Active Travel	457,000
	Improved Safety	256,000
	Public Transport	40,000
	City & District Centres	100,000
	Accessibility	70,000
	Highways Other	279,000
	Street Furniture	210,000
	Roads	6,100,000
Total		7,512,000

3.9.9 Further services may be included, or services may be excluded, as a result of the independent review currently being undertaken. The following points are notes applicable to the capital budget detailed above in Table 11:

- ⋮ Above figures are extrapolated from Environment and Transport Directorate Capital Programme
- ⋮ Bridges are excluded as now part of Capita partnership
- ⋮ Street Lighting is excluded as this service will be under a Street Lighting PFI by time of Highways Partnership
- ⋮ Funding allocated for North/South Spine is excluded as this project will not be delivered by Highways Partnership.
- ⋮ No amounts for city centre/major schemes are included as funding for these (e.g. N/S Spine) is time-limited and uncertain.
- ⋮ All parking is excluded as this will not be part of the Highways Partnership Scope
- ⋮ No non-highways services have been included
- ⋮ Total may increase due to any city centre/major projects which would be delivered through the Highways Partnership

Table 12: Revenue Highways Budget 2008/2009

Type	Description	Value (£)
Revenue Highways	Subway Maintenance	25,500
	Winter Maintenance	88,500
	Street Maintenance	4,565,200
	Service Futures	100,000
	Transportation	285,600
	City Centre & Major Projects	373,300
	Engineering Implementation	311,600
	Network Management	400,000
	Business Support	544,000
Total		£6,693,700

3.9.10 Further services may be included, or services excluded, as a result of the independent review currently being undertaken. The following points are notes applicable to the revenue budget detailed above in Table 12:

- ⋮ Dependent on final scope of services included within the partnership
- ⋮ Network Management pro rata total based on fact that service will split
- ⋮ Services Future Cost pro rata based on fact service will split
- ⋮ Head of Service Costs excluded
- ⋮ Highways Options excluded
- ⋮ Off-street parking is excluded
- ⋮ Romanse is excluded
- ⋮ Bridge Maintenance is excluded
- ⋮ Highways Capital Asset is excluded
- ⋮ Street lighting PFI is excluded

- ∴ Abandoned vehicles are excluded
- ∴ Highways insurance is excluded
- ∴ No non-highways services (e.g. gulley emptying) included at present

Contract Value

- 3.9.11 Capital (08/09) = £ 7,512k
- 3.9.12 Revenue (08/09) = £6,693k
- 3.9.13 This gives a contract value per annum of £14,205k, which if based over the expected 10 year life of the contract will give a total contract value of £142,050k.

Benchmarking

- 3.9.14 Table 13 below, provides details from other local authorities that have either entered into or are initiating public/private partnerships of some form. Only Plymouth CC would be deemed a Full Integration Partnership in this context.

Table 13: Local Authority Benchmarking

Authority	Overall Value (£m)	Length of contract (years)	Forecast Savings (% of contract value)	Forecast Savings (£m)
Sefton MBC	240	10	10	24
Wiltshire CC		6	4	1
Gloucester CC	27.3	5	6.3	1.7
Plymouth CC	107.7	9	7	7.5

- 3.9.15 Furthermore, the Audit Commission has produced the following figures in Table 14, after analysis of 14 local authorities that have entered into or are initiating public/private partnerships.

Table 14: Audit Commission Benchmarking

Criteria	Value
Mean Overall Value (£m)	189
Mean Length of contract (years)	11
Mean Savings (% of contract value)	8.3
Mean Savings (£m)	16.6
Mean Capital investment from Contractor (£m)	13
Mean Capital investment from Contractor (% of contract value)	7

Estimated Savings comparison

3.9.16 Of the four partnering models currently being considered, the estimated percentage efficiency savings for each inline with industry best practice guidance is illustrated in Table 15. For completeness the current in-house model has been included.

Table 15: Anticipated savings of Partnership Model Options

Partnership Model Option	Optimistic Anticipated % Saving	Pragmatic 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

3.9.17 Savings have been divided into three categories for each model to account for ‘Optimism Bias’ within the business case. Optimism Bias is derived from the Treasury’s Green Book and is used to account for the fact that business cases tend to portray outputs in a favourable light.

3.9.18 Optimism bias is the demonstrated systematic tendency for appraisers to be over-optimistic about key project parameters. It must be accounted for explicitly in all appraisals, and can arise in relation to:

- Capital costs
- Works duration
- Operating costs
- Under delivery of benefits

3.9.19 Therefore, the three categories of savings are:

Optimistic – to account for a positive output. Here the environment is conducive to delivering efficiencies and the project achieves positive outcomes much more often than negative.

Pragmatic – to account for a more realistic output. Here the environment is mostly conducive to delivering efficiencies but there is a realisation that projects produce a reasonable balance between positive and negative outcomes.

Pessimistic – to account for a negative output. Here the environment is not very conducive to delivering efficiencies and the project achieves negative outcomes more often than positive.

3.9.20 In comparing the capital and the revenue budgets it is accepted that the potential for increased savings to be achieved is generally more on the capital rather than revenue. For example, utilising the Full Integration model and inline with industry guidelines, out of the 8% savings you may expect a split of; 5% capital and 3% revenue savings.

3.9.21 The anticipated % saving illustrated above has been utilised in the Tables of Appendix F in order to determine baseline financial information and produce the required modelling for consideration.

3.9.22 The Council must re-invest all or part of these savings in improving the condition of the highways asset. This approach will improve service performance and deliver further customer benefits and act as an incentive and provide increased opportunities. Mechanisms for re-investing will need to be considered before and during the procurement process. It should also be noted that savings figures have not been included in the baseline figures and therefore there is no efficiency accounted for on the increased budget generated as a result of efficiencies being driven back into the network.

In-house Delivery

3.9.23 Table 15 anticipates minimal savings if the current in-house model was to remain. Potentially this figure could be 2% at the very most. A saving of 2% would mean Highways could not achieve the Council’s overall savings requirement of 3% set by the Comprehensive Spending Review. Furthermore, continuing with the in-house delivery would not secure; additional investment, economies of scale, increased capacity or innovation for example.

Implementation Costs

3.9.24 The implementation costs detailed in Table 16 below are estimates for the costs of implementing a Full Integration Partnership Model. Further information on these can be found in the Achievability chapter of this business case.

Table 16: Indicative Full Integration Partnership Model implementation costs

Resource Requirement	Estimated Implementation Cost (£)
Staff Costs	547,650
External Advisers	450,000
Contingency	50,000
Total	1,047,650

3.9.25 The total estimated implementation cost in Table 16 is inline with the Audit Commissions procurement value of approximately £ 1 million for a full integration SSP.

3.9.26 Implementation costs will vary depending on the preferred option. As expected the Full integration model will have increased costs in comparison to the Virtual model.

3.9.27 Table 17 below details indicative implementation costs based for partnership model options 1-3. As previously stated these values are based on industry best practice/guidelines.

Table 17: Partnership Models, estimated Implementation Costs

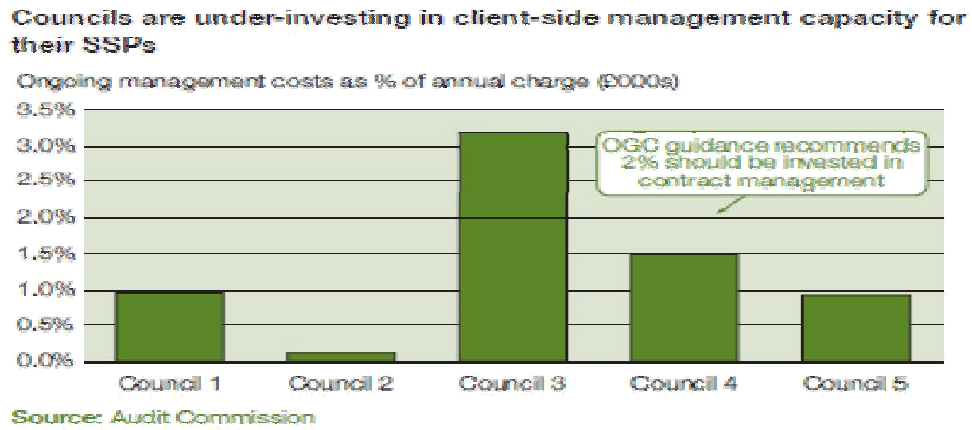
Partnership Model	Estimated Implementation Cost (£)
Option 1 - Virtual Partnership	£700,000
Option 2- Co-location Partnership	£700,000
Option 3 - Partial Partnership	£800,000
Option 4 - Full Integration Partnership	1,047,650

- 3.9.28 The above costs are related only to the development of the services contract between the Council and the delivery partner and procurement through the Competitive Dialogue process e.g. Payment Mechanisms, financial models, project contract, service specifications, support through CD and tender evaluation. The costs in relation to the Full Integration Model are premised on the establishment of an SSP. The implementation costs do not cover the costs involved in establishing a Joint Venture.
- 3.9.29 It is likely that additional financial costs will be required for a number of additional functions in relation to a JV including identifying and valuing the Council's assets and establishing the accounting and taxation requirements of the JV. Additional legal costs will be incurred for advising on and preparing the Memorandum and Articles of Association, Shareholder's Agreement, Subsidiary Contracts as well as the Services Contract. Consequently, the financial and legal costs for establishing a JV may be 2 to 3 times those set out in the OBC.
- 3.9.30 Some of the costs are relatively fixed regardless of the partnering model ultimately chosen e.g. Pre-Qualification Stage, Competitive Dialogue, specification writing, drafting services contract, stakeholder communication etc. Therefore it is considered that the Implementation Costs for Option 1 and Option 2 would be closer to the costs for Option 3.
- 3.9.31 The following points outline some of the implementation costs, dependent on the option taken that need to be considered when further determining costs of the preferred option:
- ∴ Project management/Support
 - ∴ External Advice
 - ∴ Legal Costs
 - ∴ Branding
 - ∴ Recruitment/Training
 - ∴ Due Diligence
 - ∴ Communications
 - ∴ Capital investment/ICT
 - ∴ Redundancy
 - ∴ Valuation of stock
 - ∴ Health and Safety audit

Client Monitoring Costs

3.9.32 Figure 7 below, from the Audit Commission indicates examples of five Council's client monitoring costs for Public/Private Partnerships.

Figure 7: % Contract management costs



3.9.33 The Office of Government Commerce (OGC) guidance recommends a contract management value of 2 % of the contract value.

3.9.34 Therefore based on a contract value of £142,050k over 10 years and using the OGC guidance of 2% for client monitoring costs this will equal:

3.10 Total = £2841k

3.11 Per annum = £ 284k

Contractor Capital Investment

3.9.35 Contractor Capital investment is defined as the wider, non-tangible benefits including for example added value. It can be assumed that the more integrated the model the more likely the capital investment is to be forthcoming.

3.9.36 Utilising the Audit Commissions mean value for capital investment from the contractor of 7% of the contract value, detailed in Table 14. The anticipated value of capital investment is:

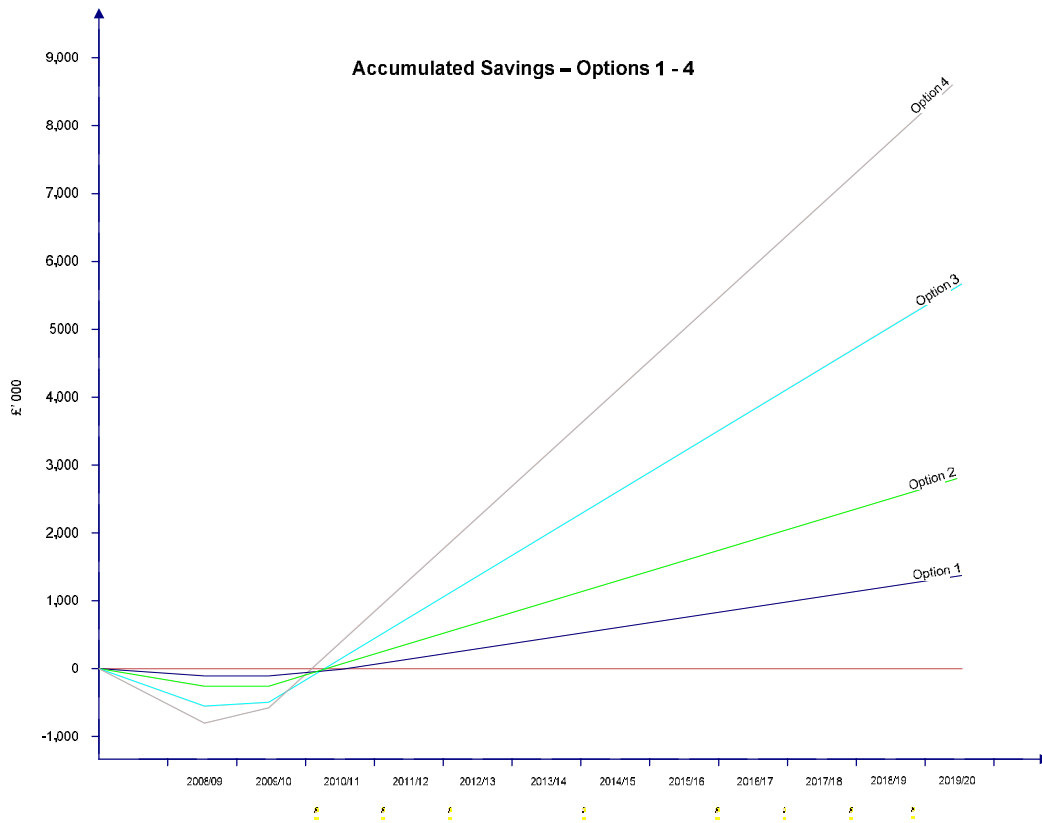
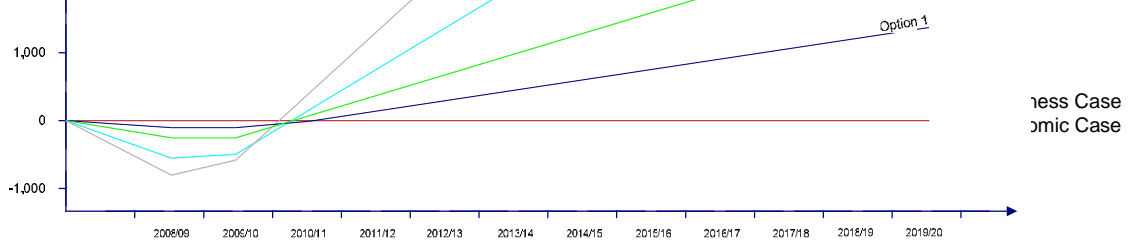
∴ Total = £ 9,943.k

∴ Per annum = £ 994k

Key results from the Economic Benefits Modelling

3.9.37 he tables in Appendix F show the baseline financial assessment, including the profile of savings over the appraisal period for the four partnership models.

3.9.38 Figure 8 below illustrates these potential savings for each option.



3.9.39 Figure 8 illustrates that option 4 accumulates the most considerable savings through the life of the project. However, the merits of this solely must be compared with the other considerations detailed within the business case.

3.9.40 The gross and net payback of each model against each category is detailed below. Clearly, the Full Integration model provides the best payback.

	Optimistic		Realistic		Pessimistic	
	Gross payback	Net payback	Gross	Net	Gross	Net
Virtual Integration	4261	721	2841	-699	1420	-2120
Co-Location	5682	2142	4261	721	2841	-699
Partial Integration	8523	4883	5682	2042	2841	-799
Full Integration	11364	7524	8523	4683	7102	3262

Notes:

- ⋮ The table above is extrapolated from Appendix F which details payback from each of the models in the optimistic, realistic and pessimistic categories.
- ⋮ Gross payback does not account for any client or implementation costs. Net payback accounts for efficiencies after any implementation costs and client costs have been deducted.