

Highways Post 2009 Strategy

Service Delivery Model

Strategic Business Case



Services for life

Document control sheet

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1 FOREWORD

1.1 Contents of this report

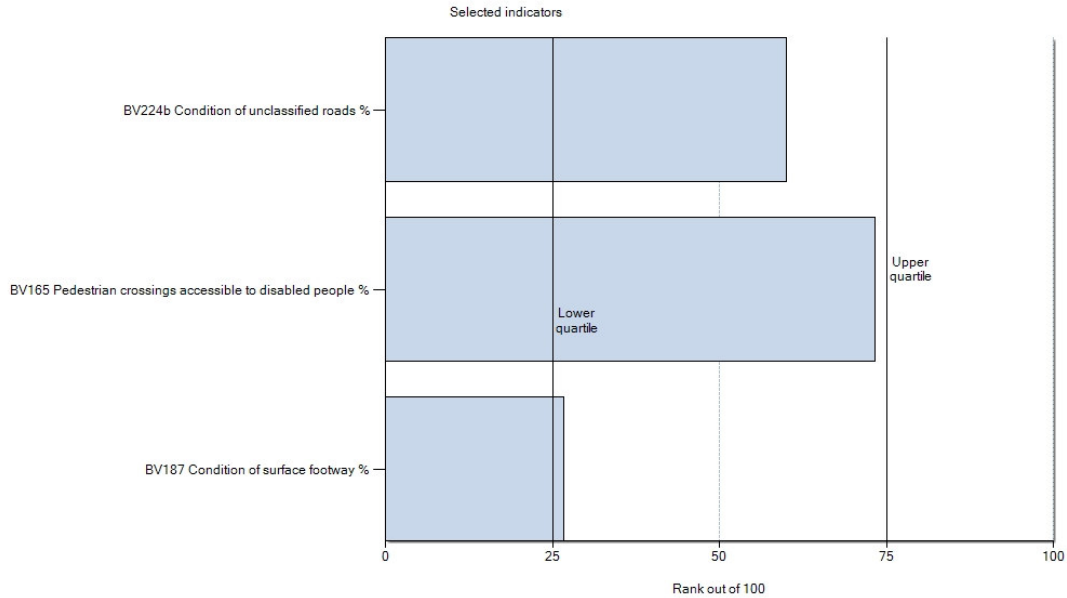
- 1.1.1 This report sets out the strategic business case for the effective delivery of the Council's highways and related services, through a partnership with the private sector, to provide a "Flexible Service Model".
- 1.1.2 It has been prepared following the principles of the Office of Government's Commerce gateway methodology, adapted as necessary to the circumstances of this particular project. It addresses the issues covered in the strategic and high level business case requirements.
- 1.1.3 The detailed business case, and other requirements of the methodology will be developed as part of the project plan once, and if, the strategic business case is approved.

1.2 Current assessment of the service

- 1.2.1 Southampton City Council's Highways and Parking Services is responsible for the services underpinning the delivery of the Local Transport Plan, together with a range of associated services including car parking and is responsible for maintaining a network infrastructure which includes:
- Approximately 565 km of adopted roads
 - Approximately 1500 km of footways, and
 - Approximately 26 km of cycle-ways
 - Approximately 23,000 street lights, on roads, paths and cycle-ways
 - Approximately 5,000 illuminated road signs, bollards and subway lights etc
 - Approximately 250 Highway Structures such as bridges etc
- 1.2.2 The bulk of resources available to Highways and Parking Services are deployed in connection with maintenance of the highways infrastructure, including footways, street lighting and other structures.
- 1.2.3 Last year, a consultancy-led gap analysis and review of the highway service against the CPA's 'Transport' Key Lines of Enquiry indicated that the service has improved from "poor" to "fair" with "promising prospects for improvement".
- 1.2.4 Figure 1: Highways Related BVPI's, shown overleaf, is based on 2006/07 performance and shows the City's position for three highway related BVPI's when benchmarked against comparable authorities. It shows all three indicators between the upper and lower thresholds, with performance against one, BV165, very close to the upper quartile whilst BV187, condition of surface footways is on the border of the lower threshold.¹

¹ The Audit Commission has not published BVPI results relating to the condition of the principle road network for this period.

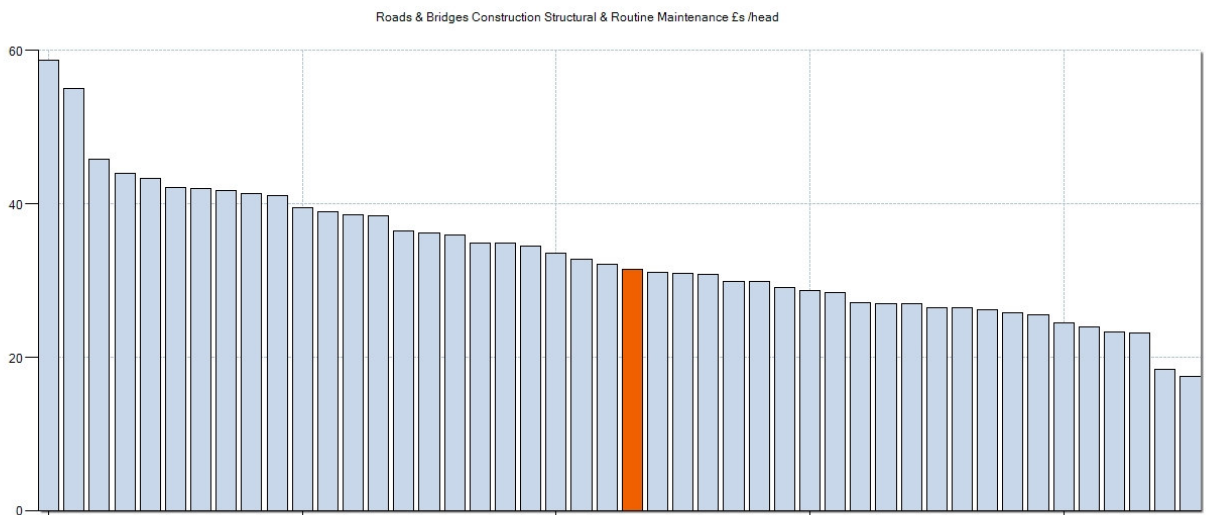
Figure 1: Highways Related BVPI's



1.2.5

Figure 2: Comparative spend construction and maintenance, benchmarks the spending of the City Council on the construction and both structural and routine maintenance of roads and bridges with that of 46 comparable authorities. The City Council is placed midway in the comparison ranked 24th out of 46 with an average spend of £31.46 per person.

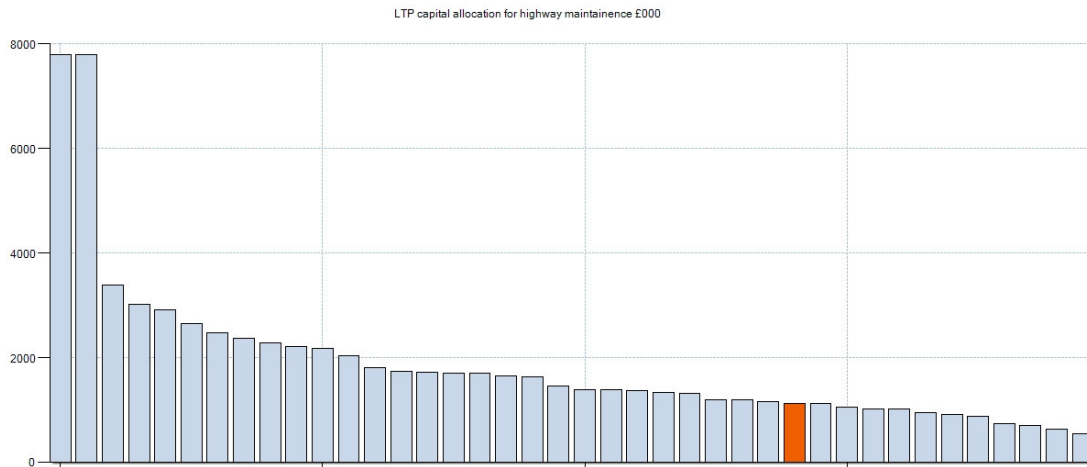
Figure 2: Comparative spend construction and maintenance



1.2.6

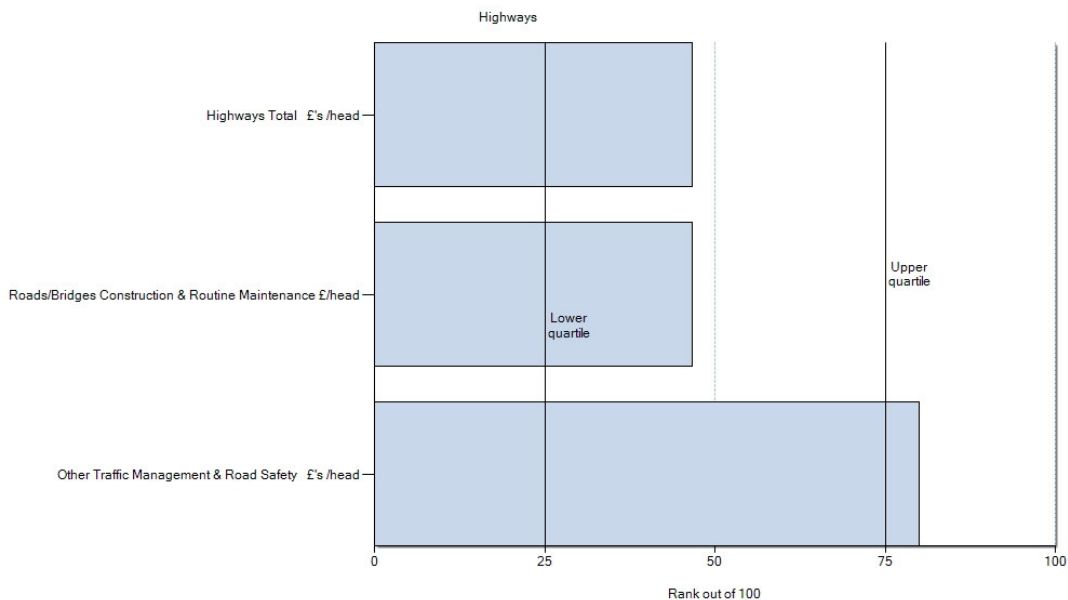
Figure 3, benchmarks the capital allocation from LTP for Highway Maintenance made by the City Council compared to other comparator authorities. The City Council is placed near the boundary of the lower quartile positioned 29th out of 40 authorities with an allocation of £1.125M.

Figure 3: LTP capital allocation for highway maintenance 2006



1.2.7 Figure 4 benchmarks spend in 3 key areas against comparator authorities. For both highways total spend per head of population, and spend on roads and bridges per head of population, the city is placed firmly in the centre and ranked just below 50 out of 100. However the position for other traffic management and road safety schemes per head of population is in the upper quartile ranked at 80 out of 100.

Figure 4: Overall spend comparisons



1.3 Maintaining and improving the service

- 1.3.1 This report concludes that partnering with the private sector provides the most effective means of achieving the medium term Flexible Service Model described in the Post 2009 Strategy for Highways approved by Cabinet on the 19th March 2007.
- 1.3.2 However, as a result of the capital intensive nature of the business, the principal current external measures of performance are concerned with the condition of the highways (including footways) infrastructure. In turn, condition is driven by the level of long term investment into the infrastructure, and its effectiveness.
- 1.3.3 Under the approved Post 2009 Strategy, significant investment, sufficient to deliver substantial and sustainable improvement in the highways infrastructure, will come on-line, probably through PFI, as part of the long term Fixed Service Model no earlier than April 2014. Therefore, whilst some additional investment may be made during the life span of the Flexible Service Model, this report is based on the premise that any such investment will be expected to do no more than maintain existing condition, or in some case ensure that deterioration is controlled, rather than deliver significant improvements.

2 BACKGROUND AND INTRODUCTION

- 2.1.1 There is no doubt that the City's Highways Service has made significant progress on its improvement journey since the service recovery process began in 2005, and that progress is still being made. Although some improvements to some aspects of the Highways infrastructure have been made through the delivery of a five year £18.5m Prudential borrowing investment programme, the network remains in an unsatisfactory overall condition and further major investment is required to bring the network up to a decent standard.
- 2.1.2 Previous discussions with Group Leaders led to an initial strategy based on PFI being agreed as the only viable source of 'new money', with all the alternatives requiring a far greater investment from the Council's own limited resources. Expressions of Interest were submitted late last year for £22m street lighting credits and £300m Highways credits, over a 25 year period. The initial street lighting submission has been successful and is progressing well. However, the latest indications from the DfT show a significant oversubscription for the Highways credits - a total of 10 highway maintenance bids are understood to have been submitted with at least one applying for the full £600m available. The total level of bids is estimated to be in the region of £3 billion. An announcement on the decision to award the PFI credits has already been delayed twice and is unlikely to come for several months. However, it is thought to be doubtful that Southampton City Council will be successful, given the number of applications against such a limited resource.
- 2.1.3 Whilst a general aspiration for improvement and a desire for service excellence are now clearly embedded in the service, as far as we are aware this is yet to be translated into a definitive, Southampton specific, strategy for long term service excellence for Highways. Such a strategy, articulated in terms of required outcomes or measures of success across a range of improvement imperatives, is essential if the service is to move from a general direction of travel, albeit a broadly positive one, to a focused drive for a specific and clearly defined end state.
- 2.1.4 It is central to ensuring resources, both human and financial, are deployed with increasing efficiency and effectiveness, and ensuring that activity is appropriate and proportionate and, wherever possible, is contributing to long term goals.
- 2.1.5 An outline strategy was approved by members in March 2007, and this can now be developed to include defined measures of success, and used as a reference against which to benchmark all existing and future policies, strategies and plans, assessing the extent to which they support the delivery of the outcomes required by the strategy and measure progress towards it.
- 2.1.6 Whilst the further development of the strategy and the identification of an appropriate delivery model to support it can already be evidenced as a logical next step for the highways service, it is important to note two specific factors that increase its immediate significance.
- 2.1.7 The first is the Compressive Performance Assessment Inspection of the Council scheduled to take place this year. The ability to present a clearly defined strategy for the future provision and improvement of the service, to illustrate that it reflects corporate and national priorities, to evidence progress towards it and to demonstrate that existing or proposed delivery models have the potential to achieve it, will greatly enhance the service area's potential to contribute positively to the outcomes of the inspection.
- 2.1.8 Secondly and perhaps most significantly, is the fact that both the current delivery contracts, technical and contracting, will need to be re-tendered or replaced within the next 12 - 18 months. Without a properly defined outcome-based vision of excellence and

a strategy to achieve it, the service will find it difficult to evidence the appropriateness and suitability of any decisions on service futures.

- 2.1.9 Given that the existing partnerships expire in 2008, and also that there have been a number of issues relating to the operation of these partnerships, the timescale in which to put in place the appropriate arrangements for the future is relatively short.
- 2.1.10 Furthermore, as there is a continuing need to procure some form of external support beyond the current arrangements, there will be an expectation on the part of the various regulatory bodies that the Council can evidence a wide ranging and robust assessment of the options for the future delivery of the service, and that this assessment evidences best value.
- 2.1.11 In its simplest form, if the Council cannot articulate what it is you are trying to achieve in terms of specific outcomes, it cannot effectively evaluate the potential of various options to achieve them and will subsequently be unable to evidence the chosen option to be the most suitable.
- 2.1.12 This document brings together the work done to date and presents it as a Strategic Business Case for the further development of the Post 2009 Strategy, and the selection of a service model to support its delivery.

3 PROJECT METHODOLOGY

3.1 Purpose of this section

3.1.1 This section of the report explains the methodology which has been adopted to move this project through the appropriate stages, in accordance with best practice guidance.

3.2 The strategic business case

3.2.1 The main purpose of a Strategic Business Case (SBC) is to establish the business need for any potential intervention with a service and any resulting investment requirement. In this instance, as well as considering the business need for improvement, various improvement options and the likely investment requirements for each, we have also considered the most appropriate service model for their delivery.

3.2.2 We have based our methodology for the development of this SBC on advice and guidance from a number of recognised sources, including the Office of Government Commerce and the Strategic Partnering Taskforce (SPT). Set up in September 2001, the aim of SPT is to help local government improve services by working with other organisations, whether other local authorities, other parts of the public sector or with the private sector.

3.2.3 Prior to commencing detailed work developing a service partnership, the SPT recommends that authorities carry out a business review and the results of that review are set out in an SBC. The SBC should provide the necessary information in a format that will enable the authority to assess the scope of the project and any investments in service improvement.

3.2.4 The SBC is the first stage in the business case development process. It precedes the Outline Business Case (OBC). The general purpose of OBCs and the criteria for judging their quality are well established and are set out in the HM Treasury's *"Green Book" Appraisal and Evaluation in Central Government (2002)*.

3.3 The outline business case

3.3.1 The OBC builds on the SBC. Its primary purposes will be to:

- provide further challenge and validation of the preferred option for meeting the project objectives,
- demonstrate that this preferred option will represent value for money, be affordable and is achievable,
- inform the procurement process.

3.3.2 All properly conceived projects should be set in a clear and well-established strategic context and should be guided by an awareness of all the critical success factors, including strategies for managing risk.

3.4 Benefits

3.4.1 The experience of those developing projects shows that the use of SBCs can help to improve the planning and execution of projects. SBCs are particularly useful in situations where:

- There are a large number of disparate stakeholders involved in a project;
- there is a need to show how a project relates to the needs of each participating public sector partner,
- the project is novel, risky and complex;
- and the parameters of the project are ill defined (particularly the objectives and scope).

3.4.2 They are a useful vehicle for allowing key stakeholders an early opportunity to influence the direction of projects, avoiding abortive effort and securing better value for money from the considerable sums of money which are sometimes spent on ill specified projects. If the SBC is properly implemented it will lead to better decision-making and quicker decisions.

3.4.3 As we have already stated, regardless of the nature of the project, the main purpose of a SBC is to establish the business need for the proposed project and any resulting investment in resources. It should clearly explain the service drivers for the project and how it satisfies the authority's and other governmental policy priorities. When the project is recommended to be continued through to the next phase, the SBC provides direction to the project sponsors on how best to develop and implement it.

3.4.4 The SBC gives the stakeholders an overview of key issues that will be addressed in more detail in an Outline Business Case (OBC). It makes it possible to:

- clarify the scope and objectives of the project
- identify options for satisfying the objectives
- decide how best to proceed based on a high-level assessment such as a qualitative assessment of the strengths and weaknesses of each option.

3.4.5 The possible outcomes after the SBC has been produced are to:

- abandon the project, perhaps on grounds of affordability, unacceptability to stakeholders or inability to manage the risks successfully
- redefine the project to make it more manageable and improve the likelihood of a successful outcome
- undertake a pilot or prototype exercise and use the results to inform how best to proceed with the project
- proceed with the project as originally conceived with a set of broad recommendations on how to proceed, including a short-list of options for more rigorous assessment at the OBC stage – this will not include identification of a preferred option since the analysis undertaken as part of the SBC will not be sufficiently robust to support an unequivocal conclusion.

- 3.4.6 In its simplest form then, this document is intended to provide the information to allow Members to decide whether to proceed with, or abandon, the delivery of the medium term flexible strategy through partnering. It is written as a “living” document in that, if approved, it will continually be updated and refined as new information and data becomes available over the life of the project.

4 THE STRATEGIC CASE FOR IMPROVEMENT

4.1.1 This section of the strategic business case sets the strategic context of the proposals by reference to the Council's corporate plan, and answers the question "why does the service need to improve?".

4.2 The Purpose of the Highways Service

4.2.1 The primary purpose of the Highways Service is to manage, maintain and improve the highway network for the safe and convenient movement of people and goods. The core objectives of the Service are to deliver a safe, serviceable and sustainable network which contributes to the wider objectives of asset management, integrated transport, corporate policy and continuous improvement.

4.2.2 These objectives, listed below, reflect those widely accepted for this type of service, and outlined in the Code of Practice for Highway Maintenance Management published 2005:

Network Safety

- Complying with statutory obligations;
- Meeting users' needs for safety.

Network Serviceability

- Ensuring availability;
- Achieving integrity;
- Maintaining reliability;
- Enhancing condition.

Network Usability – for:

- Private vehicles
- Public transport
- Cyclists
- Pedestrians

Network Sustainability

- Minimising cost over time;
- Maximising value to the community;
- Maximising environmental contribution.

4.2.3 Although most of these core objectives include or imply a focus on the needs of users, further developments in performance management, a more explicit objective of 'Customer Service' has been adopted. This objective applies to the Highway Service overall, as

users may not be able to distinguish easily between maintenance and improvement works.

- 4.2.4 Each of the core objectives is equally relevant to the more broadly-based asset management function and the statutory network management duty. This close linking is an essential requirement for delivering an integrated user-focussed service, and is emphasised throughout the Code of Practice.

4.3 Contribution to Key Strategic Objectives & Strategic Benefits

- 4.3.1 At a national level the Department for Transport (DfT) set strategic policy disseminated through documents such as the “Transport Ten Year Plan” published in 2000, and provides guidance to other public bodies on the development of regional and local transport strategy, including the production of the Local Transport Plan.

- 4.3.2 However in the work undertaken to develop this document it has been recognised that the potential contribution of the local highway network extends far wider than simply the delivery of transport strategy. It is fundamental to the economic, social and environmental well being of the community.

- 4.3.3 At a local level the City Council has developed a Corporate Plan and more recently the City of Southampton Strategy, which articulates a 20 year vision for Southampton and identifies a number of key strategic objectives.

- 4.3.4 Well maintained local transport assets, including roads, footpaths, bridleways and cycle paths, are essential not only for the delivery of better transport outcomes but also to underpin the delivery of these wider strategic objectives. They encourage walking and cycling and contribute to road safety outcomes. They promote the quality and comfort of bus services, improve journey ambience, minimise wear and tear to vehicles and promote better environmental outcomes including emissions and noise. Well maintained roads, footways, footpaths, streetlights, street furniture and public rights of way, make an important contribution to the quality and liveability of public spaces.²

- 4.3.5 The Highways Service recognises that effective management of the local road network has the potential to aid regeneration, social inclusion, community safety, health and the environment, all of which support the City’s aspirations to become the region’s economic, social and cultural driver. However it also acknowledges that this will need a planned long-term programme of investment, efficiently managed and supported by an appropriate delivery model, especially if the city is to develop;

- “An attractive and stimulating environment”
- “A supportive business environment”
- “A sense of place”³

- 4.3.6 Highways is committed to maximising this wider contribution through its management and maintenance of the highways infrastructure.

- 4.3.7 Therefore the outline strategy for the Highways Service, approved by members in March 2007, has been initially identified as:

² Well Maintained Highways – Code of Practice for Highway Maintenance

³ The City of Southampton Strategy – Draft Version 4

4.3.8 “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.”

4.3.9 To do this will require substantial additional investment in the infrastructure, with early indications suggesting a figure in excess of £150 million over a ten year period, which Highways will seek to secure and bring on stream in 2 phases:

Phase 1: Flexible Service Model (2009 – 2013/14)

4.3.10 During this initial period, Highways will seek to secure sufficient investment to ensure overall stability in the network, providing a secure platform for further improvement. As funding options are explored It is possible that the level of investment will gradually increase throughout this phase and it will therefore be essential that the service model chosen is sufficiently flexible to deal effectively with changing levels of investment.

Phase 2: Long Term Fixed Service Model (2013/14 – 2026)

4.3.11 During Phase 2, sufficient additional investment comes on stream to secure substantial and sustainable improvements in the Highways infrastructure, delivered through a service model appropriate to the level and duration of the funding.

4.3.12 This document focuses on the Phase 1 – Flexible Delivery Model, and the issue of investment, and the indicative levels of service that are necessary for this phase to support the delivery of the overall strategic benefits are outlined further on. The detailed activity on levels of service, and consequently investment requirements, will flow from the development of the Highways element of the Transport Asset Management Plan and is expected to be available to inform the necessary investment, service level and procurement decisions

4.4 Transport asset management plan (tamp)

4.4.1 As part of a separate but related project, the City Council is currently working towards an agreed Transport Asset Management Plan (TAMP). The drivers for using Asset Management, in addition to LTP2 Guidance, are:

- 'Whole of Government Accounts', which require authorities to value their transport assets in order to assess replacement costs and depreciation rates
- 'The Prudential Code', which allows authorities to choose between revenue and capital intensive options for service delivery. The code also requires consideration of asset management planning when making capital investment decisions

4.4.2 There are two strands to the development of the TAMP. The first strand will be a Highway Asset Management Plan (HAMP), and the second, prepared in parallel, is an Asset Management Plan for public transport assets such as bus stations, Park & Ride facilities and bus shelters. Other transport assets such as multi-storey car parks may also be included before producing a final TAMP.

4.4.3 Asset management is a strategic approach that optimises the allocation of resources for the management, operation, preservation and enhancement of the highway infrastructure. The process is systematic and takes a long-term view, considering whole-life costing, balancing competing demands and taking account of customer expectations. The process adopted will follow the template proposed in the publication 'Framework for Highway Asset Management', published by County Surveyors Society (CSS).

4.4.4 An effective Asset Management Plan will be essential if the City is to make the most effective use of limited financial resources in delivering the levels of service that the City requires, and to deliver the Post 2009 strategy.

4.4.5 This SBC document provides initial data on likely investment requirements and potential service levels, based on information that is currently available. The TAMP is due to be published in the summer of 2007, and its timely production will be essential for confirming these indicative figures and informing future stages of this project.

4.5 The existing arrangements

4.5.1 The Highways Service is responsible for many of the functions underpinning the delivery of the Local Transport Plan including;

- highway & footway design
- highway & footway maintenance
- street lighting
- highway drainage
- traffic management – including traffic signals and Traffic Regulation Orders
- road safety

4.5.2 These services are currently delivered through a tri-partite arrangement, known as the Southampton Highways Partnership, which supplements in-house resources with technical support from consulting engineers Halcrow and contracting support from Colas Ltd.

4.5.3 It is generally accepted that whilst they are a partnership in name, they have been operated more as traditional fixed term contracts, with clearly defined client and contractor roles and boundaries. Whilst a partnering board, intended to provide strategic direction, has been set up, its impact has been limited. The management structures of the three organisations have largely operated at arms lengths and with little in the way of integration. The City Council has retained full responsibility and accountability for the delivery of the service, the management of capital programmes, and the attainment of performance targets, whilst both “partners” have been issued with works orders or instructions, based on agreed rates, for specific pieces of work in support of this.

4.5.4 There is no doubt that significant improvement in the Highways Services have been achieved since this arrangement was put in place, and that the council has benefited from it. However, there is also disappointment in some quarters that it has failed to fully meet the City’s expectations in terms of developing a common sense of purpose and ownership, adding value, promoting innovation and shared learning, and maximising the potential benefits of partnering.

4.6 The need for improvement

4.6.1 Although often flowing from National and Corporate strategies and priorities it is important to recognise the drivers that are acting on a service at an operational level and how they stimulate improvement.

4.6.2 The evidence of the need for improvement in the Highways Service comes from 4 key sources, as summarised below.

- an infrastructure which is deteriorating, and which will continue to deteriorate at current investment levels, particularly on footways and non-principal roads
- an increasing expectation of the service (as demonstrated by the corporate plan and the City of Southampton Strategy)
- a mixed performance in terms of the national best value performance indicators
- a self-assessment analysis, using the Audit Commission's key Lines of Enquiry, which concluded that the service was only "poor", and had "uncertain prospects".

4.6.3 The above analysis, combined with the activities and outputs of the foundation workshop, has led Highways to define 4 separate imperatives for a move from the current level of performance to a level which is either improved, or which could be measured as excellent. These comprise:

- **the corporate performance imperative**, assessed by performance against the national BVPI's associated with the Highways Service;
- **the service improvement imperative**, assessed by performance against the Audit Commission's KLoE's for the inspection of Environment Block Services;
- **the financial performance imperative**, assessed by measuring performance against the financial targets monitored by the Capital Monitoring Board;
- **the technical/professional measure**, assessed through the level and speed of progress with the delivery of the Traffic Asset Management Plan (TAMP) and the level of compliance with industry codes of practice

4.7 Capacity for improvement

4.7.1 In order to secure a service which could be defined as excellent, the following actions need to take place:

- passing the service excellence tests as defined by the Audit Commission's Key Lines of Enquiry
- defining and securing additional investment and having the capability to effectively turn it into measurable improvement against a range of indicators, including the best value performance indicators
- defining and securing the additional capacity required to turn any additional investment into measurable improvement.

4.7.2 At the current level of investment into the service, whilst there will be some opportunity for improvement, its impact will, by definition, be relatively small. The case for partnering, or any other form of externalised service provision, is not therefore a strong one, the resultant opportunities being limited.

4.7.3 However, at increased levels of investment (which will be needed to maintain or improve the infrastructure condition as defined by best value performance indicators), the case becomes stronger the higher the level of investment. This is because:

- the current level of internal capacity to design, let and manage contracts is limited
- the potential for added value and community benefits increases

- the asset management planning process, through which the Council should be seeking to maximise, and demonstrate, value for money, is relatively undeveloped.

4.7.4 The remainder of this document therefore sets out the SBC for service improvement through partnering on the basis that the current level of investment needs to be increased. The document also explains why service improvement through partnering is the preferred option.

4.8 Stakeholders

4.8.1 At this stage of the project the key stakeholders have been identified as follows:

- Service, Directorate and Corporate Management Teams
- Members
- Staff and Trade Unions
- Existing contractors and consultants
- Service users

4.8.2 The scope and level of communications and engagement with these stakeholder groups will vary. It will however, comply with any co-corporate or statutory consultation requirements and be commensurate with the extent to which any proposals impact on each group.

4.8.3 A communication plan, for the remainder of the project, will be produced once the SBC has been approved.

4.9 Scope

4.9.1 All of the activities currently delivered in association with Halcrow and Colas Ltd are within the scope of this project, as alternative arrangements have to be made for their delivery when the current contracts expire.

4.9.2 This means that the following functions are included:

- City Projects Group
- Traffic Management Group
- Engineering Implementation Group
- Street Maintenance Management

4.9.3 Although initially outside the scope of the project, the following functions may be introduced at a later stage if doing so enhances the potential effectiveness and commercial viability of partnering:

- Network Management
- Business Support
- Service Futures

4.10 Exclusions

4.10.1 The Head of Highways and Parking Services and the Executive Director have confirmed that the parking element of the service is excluded from the scope of the project. The Street Lighting elements of Highways are also excluded as they are subject to a separate PFI proposal at present.

4.11 Constraints

4.11.1 There are a number of potential constraints on the project. The key constraints which are identified at this stage are:

- **Time constraints** – if the 2009 start date is to be achieved, the strategy, and an appropriate service model for its delivery, need to have been identified and approved by members by July 2007
- **Financial Constraints** – the current investment in the service, through prudential borrowing, is due to run out shortly and whilst various funding sources for any future investment are being considered, the strategy will undoubtedly be subject to financial constraints
- **Political Constraints** - it is clear that any proposed service strategy or delivery model will require political approval, and that as a result any solutions put forward will, by necessity, have to be politically acceptable

4.12 Dependencies

4.12.1 We have already described the parallel project for the development of a TAMP. As this project progresses, it will become increasingly dependant on the outcomes of the TAMP and HAMP to inform key decisions on issues such as maintenance strategy and investment priorities. The authority will need to make and, if necessary, approve these key decisions in accordance with the time line for any future procurement process, and a failure to do so will jeopardise the ability of any new delivery arrangements to go live in April 2009.

4.13 Strategic risks

4.13.1 The current delivery contracts between the Highways Service and its partners are due to expire in 2008. Whilst there is a high degree of confidence that service continuity can be assured in the short term, between the expiration of these contracts and the commencement of new arrangements any prolonged failure in the delivery of this project threatens the Authority's ability to deliver Highway Services and represents a significant strategic risk.

4.13.2 In addition to this the level of investment that the Highways Services is likely to receive in the post 2009 environment is likely to continue to be substantial, and a failure of this project to identify an appropriate and effective service delivery and management model clearly runs the risk of significant financial consequences to the Council.

4.13.3 Figure 5: Strategic Risks, shown below, illustrates the key strategic risks that accompany the project. The implementation and operational risks that accompany the selection of a delivery mechanism to support the Phase 1 – Flexible Model are discussed in detail later in the document.

Figure 5: Strategic Risks

Risk	Impact	Probability	Mitigation
<u>Financial Risk</u> – Council fails to secure sufficient levels of investment to deliver the objectives of Phase 2	High	Medium	The adoption of a flexible service model supported by a delivery mechanism that can be adapted to accommodate wide range of funding options and levels means that service continuity can be maintained even if the phase 2 investment is delayed
<u>Financial risk</u> – implementation of preferred delivery model(s) fails to meet financial expectation	High	Medium	Project methodology uses a proven options appraisal methodology and allocates expert resources to carry out appropriate financial modelling.
<u>Political risk</u> – chosen preferred delivery model(s) does not secure local Members’ support	High	Low	Project methodology includes approaches to governance and stakeholder engagement that will test sensitivity of emerging options and ensure option(s) cannot proceed without appropriate support.
<u>Competitive risk</u> – insufficient provider market interest in preferred delivery model(s)	High	Low	Project methodology, based on recent practical experience, allows for early soft market testing to scope the extent of interest and determine market requirements.
<u>Service delivery risk</u> – preferred delivery model(s) fail to deliver required levels of service	High	High	The emerging critical success factors specifically recognise existing service performance measures such as CPA and the centrality of the customer experience and will define service outcomes that will be at the heart of the options appraisal.

4.14 Critical Success factors

4.14.1 A number of factors have been identified as critical to the successful delivery of Phase 1 of the Post 2009 Strategy for Highways. These include;

- flexibility – it is essential that the transition from Phase 1 to Phase 2 of the Post 2009 Strategy can be made as seamlessly and efficiently as possible and with no disruption to service delivery,
- 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.

4.14.2 These critical success factors (CSF's) have been used in the options appraisal process outlined in Section 6.

5 THE ECONOMIC CASE FOR IMPROVEMENT

5.1 Purpose of this section

5.1.1 The preceding section set out the strategic context and the main drivers for service improvement through which to deliver the Council's medium term highways strategy in the period from 2009 to 2014. This section looks at the economic case for service improvement and the options available to the Council.

5.1.2 Whilst this section of the business case looks at a number of strategic options, its purpose is 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.

5.1.3 The section therefore looks at the medium term investment need in terms of the expenditure needed to maintain the infrastructure, but not improve it.

5.2 Business drivers

5.2.1 An important consideration at this point of the business case is to be clear about what are the main business drivers behind the service, and what it is that will improve the service over time.

5.2.2 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.

5.2.3 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.

5.3 The medium term strategy

5.3.1 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.

5.3.2 Whilst no decision has yet been made by central government on the Council's recent PFI bid, the current strategy prudently assumes that the bid will be rejected, that the next window of opportunity to bid for credits is unlikely to be before 2009 and that therefore any PFI type investment is unlikely to come on line before the year 2014.

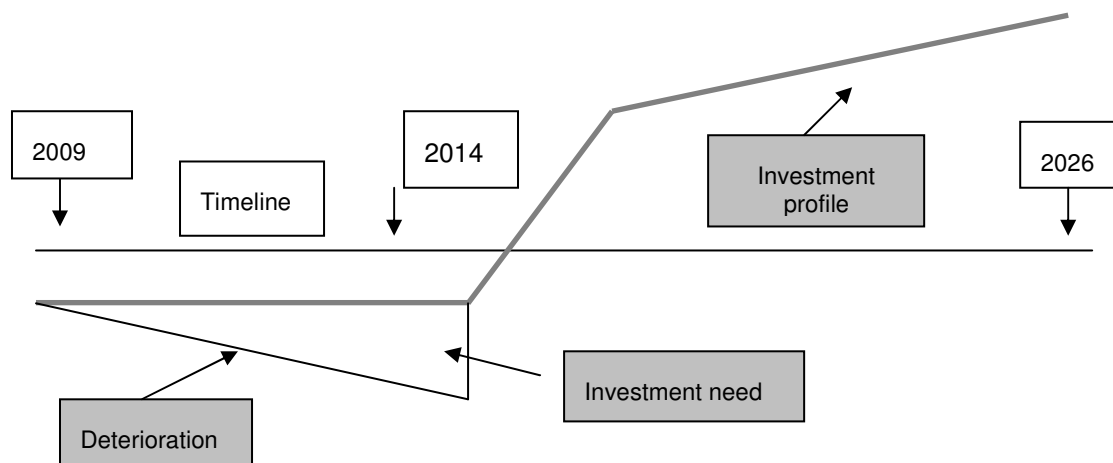
5.3.3 The initial strategy was intended to be one of investing sufficient in the infrastructure to hold the condition in its current state until 2014. As information is now emerging which suggests that the current level of investment may not be securing this objective, then without further substantial 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.

5.4 A condition led approach

5.4.1 It is important, at this stage, to recognise that a condition led approach represents a change from 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. This plan has not yet been completed and therefore the contents of this report are indicative, but sufficient to identify the issues that need considering now in the context of the proposals to secure future service delivery.

5.4.2 In terms of expenditure and condition profile, this could be represented as follows:

Figure 6: Expenditure and Condition Profile



Note: for the sake of clarity, deterioration post 2014 is not represented above.

5.5 Measuring asset condition

5.5.1 BVPI condition data is currently “subject to challenge” nationally, and there is a major risk that it is not currently credible. Further, 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. Further still, there is a flaw in the existing BVPI methodology whereby surface treatment will show an improvement in the BVPI’s.

5.5.2 Technical engineering advice from the Council’s Officers suggest that it is therefore questionable as to whether the BVPI led approach is actually securing long term improvement, or whether it is really just postponing the problems. Therefore, there must be questions as to how good a measure BVPI’s are of the real asset condition.

5.5.3 CVI’s present an alternative, are simpler and show some consistency. They currently distinguish only between assets requiring intervention and those not requiring intervention. It should also be possible to model in the BVPI “amber equivalent” in order to see which assets are moving from “amber” to “red” over the 7 year period. However, engineering advice is that, whilst these can give a reasonable guide to condition for unclassified roads, this is not the case for principal roads.

5.5.4 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 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 based on samples only.

Figure 7: Reported BVPI data (% of network requiring structural maintenance)

	<u>2003/04</u>	<u>2004/05</u>	<u>2005/06</u>	<u>2006/07</u>
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)

5.5.5 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 there are only 2 years of figures and that there are major technical reservations on the reliability of the first of the years measured by “scanner”. Unclassified roads show a deterioration but it must be recognised that the method of measurement is not necessarily reliable, and that it does not “grade” condition.

5.5.6 Overall, therefore, given the uncertainties expressed above, and the technical doubts over the real long-term impact of surface dressing, it would not be safe 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
- there are doubts over the existing condition measurement techniques, and there is a relatively short time-span over which information is available.

5.6 Determining the rate of network deterioration

5.6.1 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.

5.6.2 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 of 55 years (an average deterioration rate of 1.8% per annum)

5.6.3 Whilst support to this figure is limited, we have found 2 additional sources which provide some "comfort":

- a (more rural than Southampton) unitary council where its CVI data indicated the deterioration rate to be 1.6%
- the only UK scientific study (United Kingdom study of road deterioration and the development of maintenance strategies – Duffell – this study, limited to 5 authorities, produced an overall deterioration rate of 1.3% - when further analysed and outlying values taken out, this rate became 2.3%.

5.6.4 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).

5.6.5 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.

5.7 Defining the investment need – broad estimates

Sources of Information:

5.7.1 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 of 3% has been applied. 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.

5.7.2 The Council's current network lengths are shown in Figure 8: Network Lengths below.

Figure 8: 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
Category 3 & 4 footways	1083 km

5.7.3 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).

5.7.4 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.

5.7.5 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.

5.7.6 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.

5.8 Defining the investment need – by asset type

5.8.1 Taking the Council’s September 2006 PFI submission as the basis, we set out in Figure 9, based on the same assumptions, the investment need by asset type, again using the 1.8% deterioration rate (4% for principal roads).

Figure 9: Annual Investment Need⁴

Network Element	<u>Length</u>	<u>Length treated per annum</u>	<u>Reconstruction cost</u>	<u>Total annual reconstruction cost</u>
	<u>Km</u>	<u>Km</u>	<u>£/metre (running)</u>	<u>£ million per annum</u>
Principal roads	78.6	3.14	£1159	£3.64 million
Non-principal classified roads	63.3	1.14	£785	£0.89 million
Unclassified roads	452.3	8.14	£464	<u>£3.78 million</u>
Total roads				<u>£8.31 million</u>
Category 1 footways	16.8	0.30	£386	£0.12 million
Category 2 footways	168.4	3.03	£386	£1.17 million
Category 3 & 4 footways	1083.2	19.50	£258	<u>£5.03 million</u>
Total footways				<u>£6.32 million</u>

⁴ Using PFI bid reconstruction definitions

Notes:

1. PFI bid reconstruction definitions used as follows:

Principal Roads	Full depth repairs and renewal of binder and surface courses
Classified B	Renewal of binder and surface courses
Classified C/D	Renewal of binder and surface courses
Unclassified	Renewal of surface course

2. Footways definitions used as follows:

Categories 1/2	assume re-kerb/recon standard slab
Categories 3/4	assume re-kerb/bitmac surface

5.8.2 The estimates in Figure 9: “Annual Investment Need”, 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.

5.8.3 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 class 3 and 4 footways are taken out
- if the Council were to adopt a strategy of maintaining all roads in existing condition, but ignored all class 3 & 4 footways, the investment need would amount to £9.6 million per annum.

5.8.4 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.

5.8.5 The next section of this business case seeks to determine how the above level of investment compares with existing levels of investment.

5.9 The current level of infrastructure spending

Revenue spending

5.9.1 The Council currently spends approximately £1.5 million each year on reactive maintenance. However, by definition, this expenditure is concerned with reacting to defects as they arise and therefore does not contribute to the underlying asset condition.

Capital spending

5.9.2 An initial analysis of the current level of capital spending on road maintenance showed the following results:

- 2005/06 (actual): £6.8 million
- 2006/07 (forecast): £6.0 million.

5.9.3 However, when the above amounts are analysed further, and expenditure which does not relate to actual road condition improvement is taken out, the following analysis becomes evident:

- 2005/06 (actual): £3.4 million
- 2006/07 (forecast): £2.9 million.

5.9.4 These differences arise because, for the purposes of this business case, we are seeking to define the investment need by reference to pure infrastructure, excluding other elements of roads maintenance or improvement. This is needed in order to achieve a like with like comparison between investment need (as defined in this document) and current expenditure levels.

5.9.5 In summary therefore:

- the Council currently spends approximately £3 million capital per annum on “pure infrastructure”
- the annual investment need to maintain (but not improve) the network amounts to (figures rounded):
 - all roads: £8 million
 - class 1 & 2 footways : £1 million
 - class 3 & 4 footways: £5 million
- the annual investment gap is therefore £11 million if all assets are included, and £6 million if class 3 & 4 footways are excluded.

5.9.6 In September 2006, the Council estimated that its maintenance backlog amounted to £51 million (carriageways and footways). Taking the most extreme situation above, this will grow at the rate of £11 million per annum (plus inflation) on the basis of a strategy which seeks to maintain (but not improve) the overall network condition.

5.10 Funding issues

Current funding

5.10.1 The existing level of budget funding is shown in Figure 10: Current Funding Levels:

Figure 10: Current Funding Levels

	£' million (2006/07)
--	-----------------------------

LTP	3.4
Prudential	4.1
SCC	0.4
Section 106	1.0
Grants	1.0
On street surplus & revenue	0.4
Total	10.3

5.10.2 In terms of how much might be available to meet the funding gap, the Council's current options are relatively limited.

5.10.3 Prudential borrowing as a source of funding will end shortly, leaving £6.2 million of available funding on an ongoing basis. Section 106 monies and grants are effectively ring-fenced which further reduces this sum to £4.2 million. Whilst some LTP funding might be transferable into infrastructure maintenance as defined in this business case, any such amount would probably be restricted, thereby leaving the Council with an ongoing investment gap in terms of any "no deterioration" policy.

Future funding

5.10.4 As noted above, the prudential borrowing will come to an end shortly, reducing the above to £6.2 million. There will be some compensation as the Council's contribution is expected to be gradually increased by £2.3 million over the next 3 years. However, given the constraints imposed on the use of other sources of funding (including LTP), there remains a very large gap between the investment need identified in this report, and the funding available.

5.11 Implications for the economic case

5.11.1 Clearly, the above analysis has significant implications for the Council's highways strategy. Issues it raises include:

- medium term levels of investment and funding options (if desired) between 2009 and 2014
- the need to prioritise a "managed deterioration" policy between now and 2014
- the balance of the existing expenditure profile between infrastructure maintenance and other highway related activities
- the balance of work between reactive and planned maintenance
- the level of "acceptable" build up of backlog infrastructure maintenance
- funding options in the absence of PFI (or similar) monies from 2014 onwards
- the overall achievability of the Services long term strategy to *"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."

5.11.2 In terms of the "economic case" for improvement, it is clear that:

- the council does not have the capacity to deliver a programme at the upper investment level indicated in this business case
- even at a lower level of investment the capacity does not exist either – this is perhaps evidenced by the need for a partner to support delivery of the current programme.

5.11.3 Therefore, the business case for external support of some form remains a necessary one, whatever is the selected level of investment between 2009 and 2014.

5.11.4 What the level of investment will influence, however, is:

- the shape and form of any support arrangements
- the type of support sought (capacity and capability issues)
- the benefits which the Council might expect and therefore look to include in any contract
- the price and costs which potential suppliers/partners will quote.

5.12 Conclusions on the economic case

5.12.1 Whilst there is more work to be done, and it would be expected that this would form part of the detailed business case, the nature of the highways business is such that the Council's long term objectives are only achievable through a significant injection of capital finance into the infrastructure.

5.12.2 In the medium term, the economic case concerns the amount of investment which is affordable to manage the deterioration process in as effective a manner as possible, until such time as a longer term solution can be found to deal with backlog and make further investment to secure the longer term objectives.

6 OPTIONS APPRAISAL

6.1 The purpose of this section

6.1.1 The purpose of this section is to identify the different service delivery models, or options, that are available to the council for the provision of Highways Services, to outline the methodology that has been used to identify a preferred option.

6.2 Options appraisal methodology

6.2.1 Whilst also complying with OGC and other best practice guidelines, the methodology for the option appraisal follows the corporate approach defined by the Council, and uses the options appraisal toolkit developed internally by Southampton.

6.2.2 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).

6.2.3 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.

6.2.4 As a result, Richard Hickman, the custodian of the corporate approach to option appraisal, has been consulted by the project team and engaged in the appraisal itself in order to ensure satisfactory interpretation and compliance with the required standard.

6.3 The long list of options

6.3.1 The long list of potential delivery options was developed in conjunction with key officers, with the initial assessment being undertaken at the Foundation Workshop held in February 2007.

6.3.2 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.

6.3.3 The final long list of delivery options and their perceived advantages and disadvantages is illustrated in Figure 11 below:

Figure 11: Available Delivery Models

Delivery Model	Understanding and Comments
In-Sourcing (The Status Quo)	<p><u>What is it?</u></p> <p>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.</p>

Delivery Model	Understanding and Comments
	<p><u>Advantages</u></p> <p>This model is potentially suitable for the flexible service model required in Phase 1 of the strategy, and has some merit, including its familiarity to the Council and the potential to deal with varying levels of funding.</p> <p><u>Disadvantages</u></p> <p>Opportunities for added value are likely to be minimal, the opportunity for conflict and tensions between parties will still exist and the difficulties in integrating management structures under these arrangements are potentially detrimental to value for money.</p>
Public/Private Partnership	<p><u>What is it?</u></p> <p>A partnership between the City and a private sector partner 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.</p> <p>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.</p> <p>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.</p> <p>A partnership can require the transfer of staff to the partner organisation or can be developed with an integrated structure where the Council's staff join the "Partnership" but remain employed by the Council</p> <p><u>Advantages</u></p> <p>This model is also suitable for the flexible service model required in phase 1 and has the potential to deal with varying levels of funding and to support an effective transition into Phase 2. It also has the potential for an integrated management and delivery structure, reducing duplication of effort and increasing value for money. There is some potential for initial investment in the service from the partner, particularly in terms of service infrastructure such as IT systems, vehicles and plant.</p> <p><u>Disadvantages</u></p> <p>However there are also a number of potential risks associated with the partnering model. Firstly, successful partnering will require a significant shift in the outlook of the organisation and should it chose this option, the service area will need to be certain it can achieve this. Secondly, although the market is maturing and</p>

Delivery Model	Understanding and Comments
	<p>developing all the time, there have been a number of high profile partnerships that have failed spectacularly and the service area will need to be confident it is in a position to avoid a similar fate. The setting up of an effective management and governance framework will be a crucial factor in this.</p>
<p>Public/Public Partnership</p>	<p><u>What is it?</u></p> <p>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.</p> <p><u>Advantages</u></p> <p>Suitable for the Long Term Fixed model to support Phase 2 of the Post 2009 Strategy.</p> <p><u>Disadvantages</u></p> <p>Whilst such a partnership may be suitable for the Long Term Fixed Service Model required for Phase 2, its potential to support the delivery of phase 1 is limited due to its relatively short duration, and the comparatively long timescale required to derive significant benefits from this type of model.</p>
<p>Strategic Partnership</p>	<p><u>What is it?</u></p> <p>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.</p> <p><u>Advantages</u></p> <p>Suitable for the Long Term Fixed model to support Phase 2 of the Post 2009 Strategy.</p> <p><u>Disadvantages</u></p> <p>It is felt that whilst such a strategic partnership has several benefits that may make it suitable for the Long Term Fixed Service Model required for Phase 2, its potential to support the delivery of Phase 1 is limited due to the possibility of a short duration and the comparatively long timescale required to derive significant benefits from this type of model.</p>
<p>Externalisation/Outsourcing</p>	<p><u>What is it?</u></p> <p>In this model the Council will contract with a private provider to provide certain services in place of the local authority.</p>

Delivery Model	Understanding and Comments
	<p>This type of contract generally involves a total transfer of the service provision to the service provider.</p> <p>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.</p> <p>The Council would retain a client role for contract management and performance monitoring with a limited number of staff.</p> <p><u>Advantages</u></p> <p>It is recognised that such a model has the potential to support the delivery of Phase 1, as well as the potential to offer some short term savings in terms of overheads etc.</p> <p><u>Disadvantages</u></p> <p>A number of significant disadvantages have also been identified, including the fact that once committed to this course, if staff and assets such as accommodation, depots and vehicle fleets, were transferred into private ownership, as is likely, it is difficult to see them returning to the Council. This in turn, potentially rules out virtually all of the other options from Phase 2, including partnering at a service level, as there would be no in-house element left with which to partner.</p>
Fully In-House	<p><u>What is it?</u></p> <p>The City would recruit sufficient appropriately skilled staff to deliver all aspects of the service in-house.</p> <p><u>Advantages</u></p> <p>The Council has full control of, and responsibility for, the delivery of services</p> <p><u>Disadvantages</u></p> <p>Following extensive discussion and investigation of this option, two significant barriers to its adoption remain.</p> <p>Firstly on the contracting side, the wide variety of specialist skills required to undertake the various operational activities for which Highways is responsible, makes recruiting and retaining sufficient multi-skilled operatives impracticable.</p> <p>Secondly, and applicable to both the technical and contractor elements, if the service is to be delivered entirely in-house it would have to be resourced to a level that could cope with the highest peaks in workload. This in turn means that the service would have to effectively carry spare capacity for most of the</p>

Delivery Model	Understanding and Comments
	time to compensate for this. It is difficult to see how this could be reconciled with the increasing drive for efficiency and value for money.

6.4 Benefits appraisal

6.4.1 The critical success factors (CSF's) for the project have already been introduced in section 4.14. These CSF's, which were developed in conjunction with key officers, were also deemed to be appropriate to form the key benefits criteria against which each of the long listed options could be scored and reiterated below:

- flexibility – it is essential that the transition from Phase 1 to Phase 2 of the Post 2009 Strategy can be made as seamlessly and efficiently as possible and with no disruption to service delivery,
- 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.

6.4.2 Once agreed, each of these CSF's was weighted according to their relative importance and use for the detailed options appraisal.

6.5 Opportunities for innovation and collaboration with others

6.5.1 For both of the suggested phases of the overall Post 2009 Strategy for Highways, there is considerable scope for innovation and collaboration with others, in both the design and delivery services.

6.5.2 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.

6.5.3 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.

- 6.5.4 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.
- 6.5.5 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.
- 6.5.6 As the options appraisal and market sounding activities (described in Chapter 7) progressed, it became clear that the extent to which the different options could promote and sustain innovation and collaboration, varied considerably and this is reflected in the scores they received during the detailed options appraisal.

6.6 The detailed options appraisal

- 6.6.1 The detailed options appraisal was undertaken primarily through a series of three workshops;
- the Project Team workshop;
 - a members workshop
 - and an officers workshop.

The detailed outputs of each of the workshops are shown in detail at Annex 1, however, the main issues and findings are summarised below.

Critical success factor weightings

- 6.6.2 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.
- 6.6.3 It was agreed by all three workshops that the "flexibility" CSF, describing the ability of a particular delivery option to support a seamless transition from Phase 1 to Phase 2 of the strategy, should be a "gateway" criteria. This meant that failure to meet this requirement would mean that an option was ruled out, and would not be subject to further consideration. It was agreed that this should apply to any options that failed to score at least 1 against this criteria.
- 6.6.4 An initial assessment of the weightings was provided by the project team and this was then opened to challenge at each of the subsequent workshops. As a result of this the weighting on the "environmental" CSF, the ability to deliver reduced environmental impact and carbon foot print for service, was increased from 2 – 3 following discussions with members. No other changes were requested or made.

Scoring the options

- 6.6.5 With the CSF weightings agreed, the next stage of the appraisal process was to score each of the options 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.
- 6.6.6 Again the initial scores were developed during the Project Team Workshop, and were then challenged during each of the subsequent workshops. 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 after each session.
- 6.6.7 All of the workshops scored full externalisation as 0 for the “flexibility” CSF which, due to its gateway status, removed the option from further consideration. The main reason for this score was the potential restrictions that this option could put on the options available for consideration for Phase 2 of the Strategy. Although in some respects theoretically possible, it is extremely unlikely that once staff, and more significantly assets such as premises and vehicles, etc, have been transferred to the private sector, they would subsequently be taken back by the Authority. This means that the majority of the other delivery options, including partnering at a Service Area level, would be unavailable in the future.
- 6.6.8 At the staff workshop the score for the Strategic Partnership model was also reduced to 0, for “flexibility”. This was based on the principle that any such arrangement was likely to be for a minimum of 10 -15 years and would therefore not allow any of the other options to be considered at the 5 – 7 year point, when phase 2 was likely to commence.
- 6.6.9 The overall results are summarised in Figure 12: Detailed Options Appraisal, shown overleaf:

6.7 Risk Assessment

- 6.7.1 Each of the options was assessed against a comprehensive range of risks, and scored accordingly. The details of this are shown in Appendix 2, which also provides the framework for a risk register for the preferred option.
- 6.7.2 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.
- 6.7.3 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 Figure 12: Detailed Options Appraisal, shown over leaf.

Figure 12: Detailed Options Appraisal

CSF	Weighting	Fully In House		In Sourcing (The Status Quo)		Public/Public Partnership		Public/Private Partnership		Strategic Partnership		Full Externalisation	
Flexibility - ability to support both the "flexible" and the long term delivery model	5	1	5	1	5	1	5	2	10	0	0	0	0
the ability to respond rapidly to changes in service requirements and demands,	5	1	5	1	5	1	5	3	15	0	0	0	0
the ability to deliver improved value for money,	5	1	5	2	10	1	5	3	15	0	0	0	0
the ability to improve financial control,	4	1	4	3	12	2	8	3	12	0	0	0	0
the ability to improve asset management,	4	1	4	2	8	2	8	3	12	0	0	0	0
the ability to improve maintenance management,	4	1	4	2	8	2	8	3	12	0	0	0	0
ability to derive economies of scale,	3	0	0	1	3	1	3	3	9	0	0	0	0
TOTAL SCORE		33		60		51		103		0		0	
%AGE SCORE = SCORE divided by (WEIGHTING x SCORE)		28%		51%		44%		88%		0%		0%	
RISK RATING		Medium		Medium		High		Medium		High		Medium	

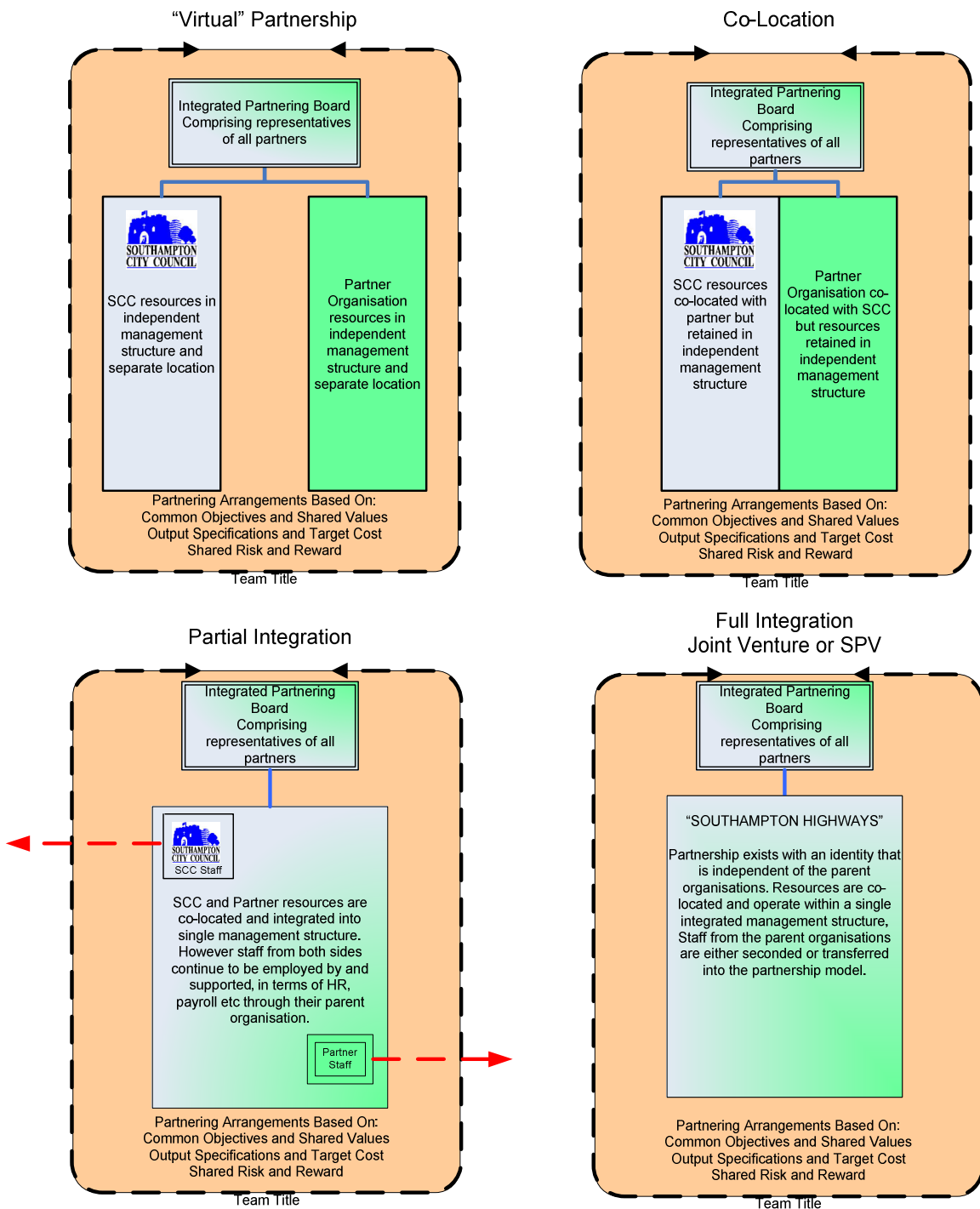
Scores in Blue = Weighted Score (actual score x weighting)

Green = Gateway CSF – Score must be at least one for appraisal to continue.

6.8 The preferred option

- 6.8.1 Having completed the benefits appraisal, the overall ranking, the risk assessment and the soft market testing described in Chapter **Error! Reference source not found.**, a **public/private partnership** has been identified as the preferred option for the delivery of the Phase 1 “Flexible Service Model”.
- 6.8.2 It is accepted that within this option a number of potential variations exist, and these have been broadly categorised in the 4 partnering models shown below:

Figure 13: Partnering Models



6.8.3

If approval to proceed with a procurement project is granted, careful consideration will need to be given to the most appropriate partnering model for Highways. However, at this stage it is clear that the **Partial Integration** and **Full Integration** models offer the most significant potential to support both the delivery of the CSF, and the overall Post 2009 Strategy for Highways, and are the preferred models at this point.

6.9 Procurement Options

- 6.9.1 Consideration has also been given to the options that exist in terms of the particular route that should be used, if approval to commence the procurement of a suitable partner is granted.
- 6.9.2 Many aspects of the process will be governed by National and European procurement rules however, having considered the scale and scope of the project and the potential complexity of the model being procured, Competitive Dialogue has been identified as the preferred procurement route.
- 6.9.3 Competitive Dialogue is a new procurement procedure introduced in the EU Public Sector Procurement Directive (2004/18/EC) and implemented into UK law via the Public Contracts Regulations SI 2006/5 with effect from 31 January 2006.
- 6.9.4 Guidance about Competitive Dialogue has been published by both OGC and the European Commission. Not surprisingly as this is a new procedure there is uncertainty amongst contracting authorities and bidders about its operation in practice.
- 6.9.5 However, contracting authorities who have been using the procedure since its introduction are gaining experience of the procedure's practical implementation. Some of the more common questions being asked of OGC, HMT, 4ps and department PFUs have led to the recognition that this experience should be shared, and considerable guidance and support is now available.
- 6.9.6 Competitive Dialogue is a flexible procedure for use in complex projects where there is a need for the contracting authority to discuss all aspects of the proposed contract with candidates.
- 6.9.7 In the past many complex projects were procured via the Negotiated Procedure. With the introduction of Competitive Dialogue as an alternative procedure the Commission has reiterated that Negotiated Procedure is only available in "exceptional cases".
- 6.9.8 The following is list of key points, relating to practical matters which the authority needs to consider and confirm before formal procurement commences. It is not intended to be exhaustive and the Project Team is working closely with both Corporate Procurement and Legal Services to ensure effective decision making and compliance with all relevant requirements;
- Early consideration has been given to the procurement procedure that will be used. However the justifications for the procedure selected will need to be fully documented, legal advice sought as appropriate, and the decision discussed with relevant sources of procurement expertise as required;
 - The appropriateness of using the Open or Restricted Procedures should be considered. Although this is a complex project, there is no presumption that Competitive Dialogue will be the most appropriate form. Its use will have to be justified with the reasoning behind the choice of procedure documented;
 - Competitive Dialogue is now used for the vast majority of complex procurements, with very few such projects being procured under the Negotiated Procedure which should only be used in truly "exceptional" circumstances. Again, its justification and reasoning would need to be documented;
 - The procedure under which procurement is being undertaken has to be stated in the OJEU notice. Once stated, it is not generally possible to change to an alternative procurement procedure (except that the Negotiated Procedure can be

used where a previous open, restricted or competitive dialogue procedure was discontinued due to irregular or unacceptable tenders) without cancelling the procurement and issuing a new OJEU notice;

- 6.9.9 The early stages of Competitive Dialogue (including market soundings, Prior Information Notices, OJEU, expressions of interest and prequalification) are similar to the other Procedures (Open, Restricted and Negotiated). The major changes from prior practice occur once the Invitation to Participate in Dialogue has been issued.
- 6.9.10 There is concern, so far untested, that Competitive Dialogue will result in higher bid costs for both the public and private sectors. This will be dependent on the ability of the Authority to undertake the procurement in an efficient and effective manner, the number of parties involved in the dialogue and the length of the dialogue process. It will therefore be necessary to consider at an early stage, and in detail, how the dialogue stage will be undertaken and to inform prospective bidders how it will be conducted. The Authority will need to consider how many pre-qualified bidders should be invited to partake in the dialogue⁵ and how (if appropriate) the number of “solutions” might be reduced during the dialogue stage;
- 6.9.11 Competitive Dialogue does not necessarily represent a major or fundamental change to the way in which complex procurements have been undertaken in the past. It reinforces many of the best practice messages, including:
- Undertaking a thorough assessment of the need and objectives of the procurement, ensuring affordability and approvals considerations are addressed at an early stage and ensuring that there are limited, if any, changes in scope during the procurement process;
 - Ensuring the procurement process is conducted in an efficient and effective manner which minimises costs and maintains competition; and
 - Ensuring contractual terms and risk allocations are settled during the competitive stage of the procurement process.
- 6.9.12 Whilst Competitive Dialogue has been identified as the preferred procurement route by the project team, this is subject to the endorsement of Corporate Procurement and Legal Services, and will be confirmed once approval to proceed has been granted.

⁵ Subject to the provisions as outlined in *The Public Contracts Regulations 2006* detailing the minimum number of economic operators shall be not less than 3

7 COMMERCIAL ASPECTS – SOFT MARKET TESTING

7.1 Introduction

7.1.1 In order to understand the appetite of the market for a project of this type a soft market sounding exercise has been completed. Six companies were invited to attend informal meetings with the Project Team.

7.1.2 These companies were selected to provide a cross section of medium to large size companies, those specialising in technical consultancy or the contracting elements and those that could provide both.

7.1.3 All of the companies invited agreed to take part in the exercise.

7.2 General findings

7.2.1 The meetings covered the key themes of scope, procurement timetable, contract term and value, principles of partnerships, supplier experience, market development and capacity and interest in Southampton. Whilst detailed evidence from this exercise is available separately, the findings are summarised below;

- all the suppliers who attended the meetings were interested in the potential to partner with the Council for the delivery of its highways services;
- public/private partnering for highways services is an expanding field, with all of those interviewed currently operating at least one partnership contract with the public sector;
- there was a consensus that a minimum value of work undertaken by the partnership of £7M - £10M per annum was necessary to make the more innovative partnering models attractive;
- the current funding packages for highways related services of approximately £14.5M would therefore be sufficient to generate interest in all the partnering models, with the partially or fully integrated models preferred by the market;
- however, the market would be looking for minimum levels of funding to be guaranteed for the duration of the arrangement if maximum benefits are to be derived;
- contract length is perhaps the most significant factor and there is no real interest in the more innovative partnership arrangements unless there is the prospect of it lasting at least 5 - 7 years (this could be an initial period of 5 years followed by the option of a number of extensions to take it up to the 7 year mark, with the basic mechanism for awarding an extension being agreed before the commencement of the partnership)
- a range of partnering options, reflecting those shown in Figure 13: Partnering Models, were discussed and given the likely duration and value of the arrangements, all potential suppliers agreed that some form of integrated partnership appeared to be the best approach;
- all potential partners recognised the significance of organisational cultures and how the successful merger of cultures would be key to the level of success of the partnership.

- most favoured setting the partnership as a body that either physically or virtually, stands apart from the parent bodies, with its own identity and branding. This means it can develop its own culture, and makes it easier to move from “them and us” to “we”.
- although TUPE is an option for achieving the above, we saw examples of companies achieving a fully integrated and effective management structure without actually transferring staff - whilst there was an acceptance that this model could take longer to bed down than a TUPE arrangement, there was some support for the view that this could provide a better foundation for longer term success and offer a number of advantages to the partners, including greater flexibility, and reduced anxiety for the staff involved;
- all potential suppliers expressed a willingness to discuss further with the Council the potential for the development of a fully integrated model, but with SCC staff seconded into it rather than transferred under TUPE
- providing the duration is long enough, all potential partners were prepared to look at added value and community benefits such as recruiting locally from important demographic groups and developing training schemes for them, joint training and development initiatives, etc.
- the Project Team were shown some innovative examples of incentives within partnering contracts, but the most sensible models appear to be based on incentivising the performance in the early years through rewards based on delivering efficiency savings and then, as further efficiency savings become harder to achieve the emphasis for any incentive can shift to the delivery of performance improvement, added value and community benefit targets;
- the potential suppliers reinforced the importance of building in the flexibility for the partnership to evolve to meet changing needs and increasing expectations, and highlighted the importance of the wording of any OJEU notice in enabling this;
- there is potential for an “enabling partnership” to be developed, having broader aims and objectives than the efficient and effective delivery of highway services, and responsible for enabling the delivery of the City of Southampton Strategy through increasing integration with regeneration and planning.

Other areas of specific interest are discussed in the following sections.

7.3 Output Based Specifications

7.3.1 All of the potential suppliers were positive about the potential to use output based specifications. It was however recognised that this may not be possible across the full spectrum of activities likely to be included in the partnership, with some elements currently more suitable than others.

7.3.2 For example the reactive maintenance service has a clear set of service criteria with inspection frequencies, intervention levels and repair timescales. The City can also provide historical data as to the volume and types of repair that this regime has generated. As a result, in theory, potential partners could be asked to quote a price for the annual provision of the service, rather than for individual repairs or inspections. In this scenario the payment of any fees would be dependent on meeting required standards of service.

7.3.3 In other areas, such as planned maintenance, it may be difficult to move immediately to a purely output based specification, and it may be necessary to use a mixture of scheduled

rates, target costs and output specifications initially, although there was agreement that output specification should generally be the goal.

7.4 Risk Allocation and Transfer

7.4.1 All of the potential suppliers were positive about the issues surrounding risk allocation and transfer. Whilst these issues will need to be developed further during any procurement process, discussions took place about how risks could be apportioned or shared. The consistent message from the market was that whilst the potential to transfer or share risk clearly existed, it was essential risks were allocated to the party best placed to manage them, subject to achieving value for money.

7.5 Summary

7.5.1 It is important to note that this soft market sounding process was not intended to form part of any evaluation of suppliers, rather it was intended to inform the decision making process (for the project) within the Council. An open market testing exercise will follow if approval for the project is received, and those companies invited to the soft market sounding are not an exhaustive list of potential partners. All suppliers, whether or not they have taken part in the market sounding exercise, will be required to engage in a formal procurement process that complies with the Council's Standing Orders for contracts and the EU Public Procurement Directives.

7.5.2 In summary there is a good appetite in the marketplace for the development of some form of integrated partnership with Southampton City Council for the delivery of its Highways Services.

8 ACHIEVABILITY

8.1 Evidence of similar partnering projects

8.1.1 As referred to here, 'partnering' means the creation of a sustainable, collaborative relationship with suppliers in the public and private sectors to deliver improved services, increase efficiency and undertake projects.

8.1.2 The benefits of the partnering approach can include:

- better designed solutions
- integration of services for customers
- access to new and scarce skills
- economies of scale and scope
- investment
- community benefits (including jobs and local economic effects)

8.1.3 One example of where successful partnering arrangements are in place is the Impact Partnership, a multi-service joint venture partnership between Rochdale Metropolitan Borough Council, Mouchel Parkman and Agilisys, which was set up in 2006.

8.1.4 The partnership saw 350 Rochdale council and private sector staff seconded into the joint venture in order to provide the borough's Highways Engineering (HE), Customer Services and Property Maintenance Service.

8.1.5 The aim of the partnership was to tackle the economic challenges facing the council and to support its regeneration through:

- service transformation
- physical regeneration
- skills development
- job creation

8.1.6 In its first year of operation some notable successes have been achieved:

- the delivery of several local safety schemes with footways and cycle lanes
- the implementation of the "Impact Performance" model to HE,
 - Target 1: to deliver a 2% efficiency saving
 - Target 2: to deliver projects, schemes and routine maintenance to programme, budget and quality
 - Target 3: to create 1,305 jobs in the 15 year life of the partnership and in the first year 80 new customer service roles have been created, recruited mainly from the Rochdale area

- Target 4: improved customer services, by, in the first year, obtaining ISO:9001 accreditation (quality management) and setting up an environmental management system.

8.1.7 This case study illustrates that partnering, as outlined, as the preferred option for Southampton is achievable, and this is further supported by the fact that there are now 10 similar partnering schemes in place within the UK.

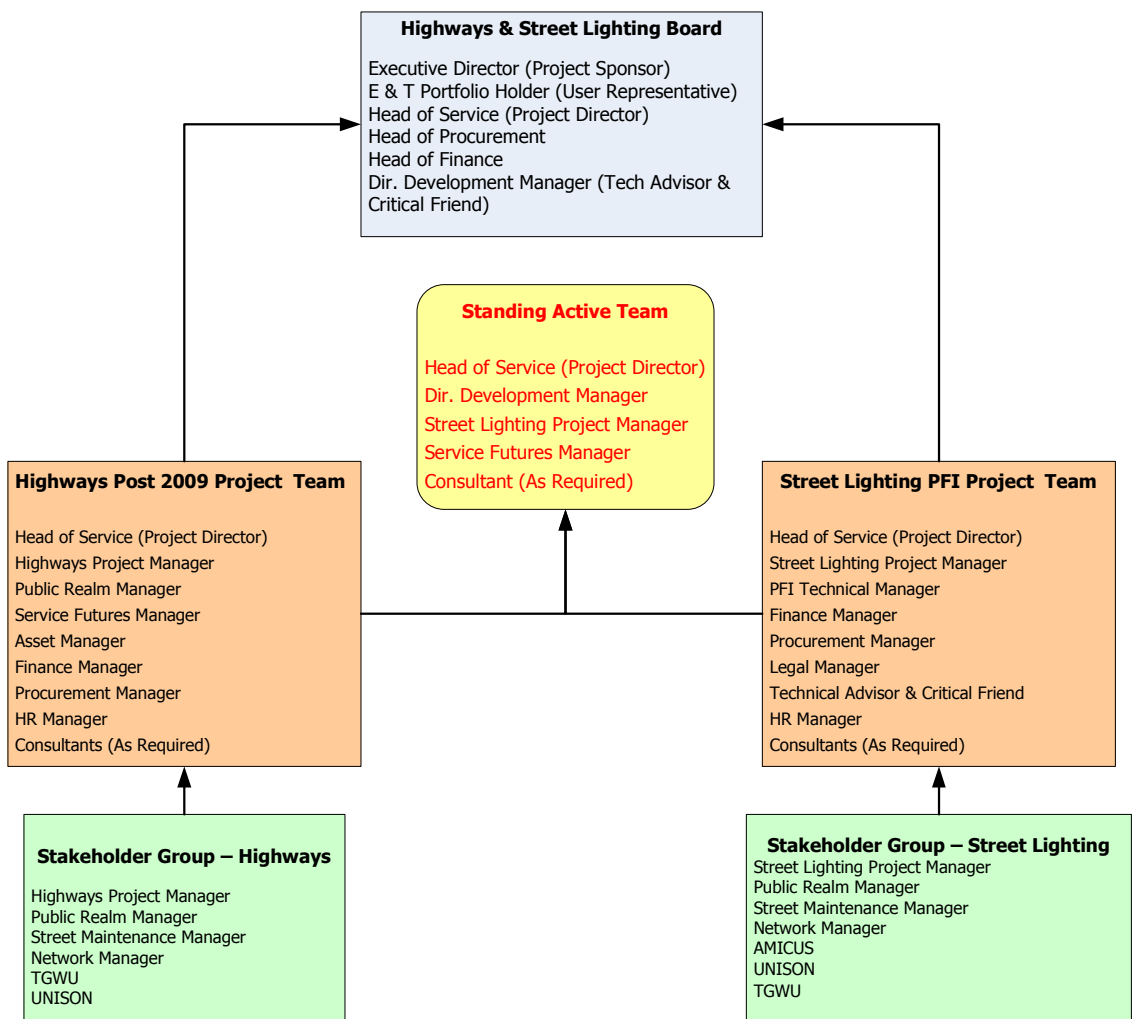
8.1.8 There are also a number of different types of partnering arrangements in place across the country, that have enjoyed varying levels of success. However, one issue is fundamental to the successful implementation of a partnering arrangement and that is the importance of a good initial set up process.

8.2 Project roles

Project Organisation, Roles and Responsibilities

8.2.1 The project roles are outlined in the figure below and the key roles described in the following text.

Figure 14: Project Structure



- 8.2.2 The following individuals have been identified as having specific responsibilities for the delivery of the post 2009 project and form the core of the Highways and Street Lighting & Highways Management Board:
- Project Sponsor – Lorraine Brown (Executive Director for Environmental Services)
 - Project Director – Mick Bishop (Head Of Highways and Parking Services)
 - Project Manager – To be Confirmed
- 8.2.3 In addition, the E & T Portfolio Holder, Head of Procurement, Chief Finance Officer and Directorate Development Manager comprise the balance of the Board.
- 8.2.4 The Project Manager will be responsible for the day to day running of the project, whilst Mick Bishop (Project Director) will be responsible for ensuring the outputs from this specific project integrate appropriately with the City Council's broader programme of post 2009 developments which includes the Street Lighting PFI project.
- 8.2.5 Mick Bishop, as Head of Service, has demonstrated that he has the necessary skills and experience to undertake the Project Director (PD) role the duties of which are summarised below as including:
- ensuring that the project of change meets it's objectives and delivers the expected benefits;
 - ensuring the project is reviewed at the appropriate stages, especially the key decision points and addressing feedback issues that result from the review process;
 - ownership of the project, including project brief and business case development, alignment with Council objectives and ensuring that funding streams are available;
 - development of a coherent project organisational structure and plans, including engaging with project initiation and ensuring the alignment of the governance of both elements of the overall post 2009 strategy;
 - monitoring and control of progress at a strategic level and the provision of advice, decision making and communication with senior stakeholders and the Project Board;
 - formal project closure including documenting any 'lessons learnt' within the end of project evaluation report, and formally signing off the project, ensuring that the aims and objectives have been met and any 'lessons learnt' have been disseminated plus planning of the post project review;
 - ensuring that the post implementation review takes place, the outputs are forwarded to stakeholders and the projected benefits realised.
- 8.2.6 The Project Manager will require the necessary skills and experience to manage the project on a day to day basis including:
- undertaking duties delegated from the PD
 - monitoring and control of the project
 - the production of regular reports to the PD and Project Board regarding business change(s)

- assisting the PD with ensuring that the project meets its objectives and delivers the projected benefits
- assisting the PD with ensuring the project is reviewed at the appropriate stages, especially the key decision points, and addressing feedback issues

8.2.7 The Project Manager will be identified once approval for the project has been granted.

8.3 Procurement strategy/indicative timetable

8.3.1 As part of the development of this SBC we have considered the various procurement strategies that are available to the authority for this project.

8.3.2 If the procurement strategy is to be successful, the key features sought to be achieved by the partnering approach must be set out in both the requirement and the formal contract - both partners must be clear about what they want and fully understand what is being proposed from the earliest stage and throughout procurement. Plans for how the risks will be managed must be made clear.

8.3.3 Traditional procurement concentrates on an examination of what the partner would do for the customer, with far fewer commitments in return; partnering focuses on what you could achieve together. Compromises may be required from either party and each should stress their organisation's willingness to take a collaborative approach at all stages.

8.3.4 At the outset of the procurement process, the customer's and supplier's objectives are unlikely to be fully aligned; incentives have to be designed to achieve this. Contracts that reward partners for helping deliver business objectives, but without attempting to transfer risks best managed by the customer, are an essential foundation for a good partnering arrangement to be put in place at Southampton.

8.3.5 It is for this reason that we believe a procurement process based on competitive dialogue should be the preferred procurement option.

8.3.6 An indicative procurement timetable using the competitive dialogue process is set out in Figure 15: Procurement Timetable below:

Figure 15: Procurement Timetable

REF	Activity (in sequence)	Date (Week Ending)
1	Approval of project	30-Jul-07
2	Complete descriptive document	17-Aug-07
3	OJEU notice	21-Sep-07
4	Issue Pre-Qualification Questionnaire	21-Sep-07
5	Closing date for PQQ response	26-Oct-07
6	Outline business case to members	9-Nov-07
7	Assessment to pre-qualify	23-Nov-07
8	Joint Open Day for prospective contractors	14-Dec-07

REF	Activity (in sequence)	Date (Week Ending)
9	Complete evaluation framework for short listing	28-Dec-07
10	Open Competitive Dialogue	11-Jan-08
11	Issue Invitation to Submit Outline Solutions (ISOS)	18-Jan-08
12	Closing date for response	15-Feb-08
13	Evaluation to shortlist of 3 or 4 bidders	14-Mar-08
14	Debrief unsuccessful bidders	28-Mar-08
15	Complete evaluation framework for selection of preferred bidder	25-Apr-08
16	Open data room to bidders	2-May-08
17	Issue Invitation to Submit Detailed Solutions (ISDS)	9-May-08
18	Closing date for bidders questions	6-Jun-08
19	Closing date for response	20-Jun-08
20	Evaluation report complete. Commence "dialogue"	18-Jul-08
21	Second stage short listing (if required)	18-Jul-08
22	Assess readiness to close dialogue	15-Aug-08
23	Close competitive dialogue and seek final tenders	5-Sep-08
24	Closing date for final tenders	3-Oct-08
25	Final tender evaluation report	24-Oct-08
26	Select Preferred Bidder and Reserve	14-Nov-08
27	Members' approval of Preferred Bidder	28-Nov-08
28	Debrief unsuccessful bidders	28-Nov-08
29	Final clarifications and due diligence	12-Dec-08
30	Submit Final Business Case to Members	19-Dec-08
31	Members' Approval to sign contract	9-Jan-09
32	Mobilisation	10-Jan-09
33	Service commencement	3-Apr-09

8.3.7 Whilst there is the potential for a partnership to go live on the 1st Monday of April 2009, this is based on each phase of the process being completed in the theoretical minimum

timescale. As a result, the ability to commence on this date is extremely sensitive to the potential for delays in the procurement process.

8.3.8 The practicalities of adhering to this self imposed deadline and the achievability of it, need to be assessed in more detail in the development of the outline business case and the early stages of the procurement process.

8.3.9 In addition to the above, whilst not necessarily prohibitive to the commencement of the partnership, it would certainly be beneficial for Highways to deliver and embed further KLoE improvement actions, particularly in the areas of performance management and value for money, prior to it going live. Without this, the service will lose an opportunity to develop a meaningful baseline from which to assess the effectiveness of the partnership in the delivery of service, and use of resources.

8.4 Project plan

8.4.1 Whilst the previous section provides an indicative timeline for the procurement process if approval to proceed is granted, the development of a detailed project plan for the selection of a suitable partner, the definition of the partnering arrangement and the activation of the partnership will be essential.

8.4.2 Such a plan will need to provide a statement of how and when the project's objectives are to be achieved by showing the major products, milestones, activities and resources required on the project, and is used as a baseline against which to monitor project progress and cost stage by stage.

8.4.3 It will link the time-line as described above with an assessment of resource requirements and project costs.

8.4.4 For the purposes of this business case the costs of setting up the partnership have been based on the assumption that internal resources will be used to deliver the project. However, there is also a separate issue within Highways evidenced by the self assessment process, as to the capacity of the organisation to step back from day to day operation of the service and make the time investment needed to move forward from a "fair service with promising prospects" to a "good" or "excellent" service.

8.4.5 The delivery of the partnership project will impose additional strains on the organisation, and it is acknowledged that it may be unrealistic to expect this to be delivered from existing resources. Some of the tasks which need to be undertaken between now and the start of the contract include:

- preparation of the detailed business case and project plan;
- developing a detailed affordability model;
- risk mitigation procedures (prince 2 methodology);
- evaluation of options as to what services go into the partnership;
- decisions as to the shape and form of the partnership;
- visits to other Councils to look at potential models and contracts;
- preparation of the specification, evaluation and selection of bidders;
- preparation and letting of the contract.

- 8.4.6 The indicative resource requirement to undertake this work is estimated as 2 to 3 full time equivalent staff for a period of 18 months, costing approximately £0.2 million.
- 8.4.7 We believe that it is unlikely that the Officers involved will be able to generate sufficient spare capacity within their current structure to provide this level of input. It will therefore be necessary, as part of the detailed business case work, for the Council to assess how this capacity gap can be addressed, and which essential tasks will need to be retained in-house and which are suitable for external support. Once the level of external support necessary has been determined, a more detailed assessment of the cost implications can be made.
- 8.4.8 The other major cost will relate to completion of the asset management plan, the estimated cost of which is £0.2 million.
- 8.4.9 In summary therefore, the indicative cost of setting up the partnership would amount to £0.4 million. It would be prudent to include some contingency, which would bring the total to approximately £0.5 million over the next 18 months.
- 8.4.10 There are some project prerequisites, containing some fundamental aspects that must be in place at the start of the project and some that must remain in place for the project to succeed, such as:
 - the Highways Asset Management Plan (HAMP) needs to be completed and maintained in order to allow comparison of performance standards with the new service partner
 - the need to ensure that, whatever the eventual form of the partnership, the governance arrangements remain appropriate to a local authority and that the accountability of the partnership is secured. Whether the eventual form of the partnership is a loose one in which both parties remain as separate organisations but work together, or whether it is some form of separate body, the Council will need to ensure that the contract is clear about the expected standards and fiduciary responsibilities of the partnership.

Figure 16: Indicative Cost of Project Implementation⁶

Job Title	Duties and Responsibilities	FTE input	Value in £s (18 months)
Project Manager (To be appointed)	Has the authority to run the project on a day to day basis on behalf of the Project Board within the constraints laid down by the board. The Project Manager's role, which reflects the PRINCE 2 methodology for project management, will have a prime responsibility for ensuring that the project produces the required outputs to the required standard of quality, and within the specified constraints of time and cost. The Project Manager will also be responsible for	0.5	40,000

⁶ In-house, over the 18 month project life

Job Title	Duties and Responsibilities	FTE input	Value in £s (18 months)
	<p>the project producing a result that is capable of achieving the benefits defined in the business case.</p> <p>Specific responsibilities will include;</p> <ul style="list-style-type: none"> ■ manage the delivery of the required outputs ■ direct and motivate the project team ■ plan and monitor the project ■ agree any delegation and use of Project Assurance roles required by the Project Board ■ produce the project initiation document ■ prepare Project, Stage and if necessary Exception Plans and agree them with the Project Board ■ manage the risks in the delivery of the project, including the development of contingency plans ■ liaise with the wider corporate improvement programme ■ manage progress and use of resources and initiate corrective action if necessary ■ prepare and report to the Project Board through Highlight Reports and End Stage Reports ■ liaise with the Project Board or its appointed project assurance members to ensure overall direction and integrity of the project ■ agree technical and quality strategy with appropriate members of the Project Board ■ prepare the “Lessons Learned” report ■ prepare any Follow-on Action Recommendations for the management , planning and control of the project 		

Job Title	Duties and Responsibilities	FTE input	Value in £s (18 months)
	<ul style="list-style-type: none"> ■ responsible for project administration ■ liaison with, and co-ordination of, external support to the project ■ arrange and lead checkpoint meetings and produce checkpoint reports as agreed with the project board 		
Head of Highways and Parking Services	<p>Specific involvement will, as a minimum, include;</p> <ul style="list-style-type: none"> ■ attendance at Project Board and project management meetings ■ leading the preparation of the detailed business case and project plan ■ supporting the development of a detailed affordability model ■ leading the evaluation of options as to what services go into the partnership ■ leading the decision making process as to the shape and form of the partnership ■ visits to other Councils to look at potential models and contacts ■ leading detailed market testing ■ supporting the preparation of the specification, evaluation of tenders and selection of bidders ■ supporting the preparation and letting of the contract 	0.2	25,000
Public Realm Manager	<p>Specific involvement will, as a minimum, relate to Highway Maintenance and Street Lighting and will include;</p> <ul style="list-style-type: none"> ■ attendance at project management meetings ■ supporting the preparation of the detailed business case and project plan ■ supporting the development of a detailed affordability model 	0.30	18,000

Job Title	Duties and Responsibilities	FTE input	Value in £s (18 months)
	<ul style="list-style-type: none"> ■ supporting the evaluation of options as to what services go into the partnership ■ supporting the decision making process as to the shape and form of the partnership ■ visits to other Councils to look at potential models and contracts ■ supporting detailed market testing ■ supporting the preparation of the specification, evaluation of tenders and selection of bidders 		
Highway Assessment Engineers X 2	<p>Specific involvement will, as a minimum, relate to Highway condition information and the Highways Asset Management Plan and will include;</p> <ul style="list-style-type: none"> ■ attendance at project management meetings ■ leading the development of a Highways Asset Management Plan ■ supporting the preparation of the detailed business case and project plan ■ leading the development of a detailed affordability model ■ supporting the evaluation of options as to what services go into the partnership ■ providing information to support decisions as to the shape and form of the partnership ■ visits to other Councils to look at potential models and contracts ■ supporting detailed market testing ■ supporting the preparation of the specification, evaluation of tenders and selection of bidders 	1.2	78,000
Street Maintenance	Specific involvement will, as a minimum, relate to highway maintenance and inspections and	0.25	18,000

Job Title	Duties and Responsibilities	FTE input	Value in £s (18 months)
Manager & Engineering Implementation Manger	will include; <ul style="list-style-type: none"> ■ providing information to support the preparation of the detailed business case and project plan ■ providing information to support the development of a detailed affordability model ■ providing information to support the evaluation of options as to what services go into the partnership ■ providing information to support the decision making process as to the shape and form of the partnership ■ visits to other Councils to look at potential models and contracts ■ providing information to support the preparation of the specification, evaluation of tenders and selection of bidders 		
Other Highways Staff	Providing miscellaneous project support activities	0.40	24,000
Totals		2.85	£203,000

8.5 Contract management

8.5.1 Successful contract management dictates that there are three main areas of activities that must be managed if the arrangement is to be a success:

- service delivery management, which ensures that the service is being delivered as agreed, to the levels of performance and quality specified
- relationship management, which keeps the relationship between the two parties (Southampton and the partner) open and constructive, and aims to reduce tensions and identify problems at an early stage
- contract administration, which handles the formal governance of the contract and amendments to contract documentation

8.5.2 The outline arrangements for contract management will include the following key principles, designed to ensure that the requirements of the above activities are satisfied.

Service delivery management

- the contract will define the required service levels and terms under which the service is to be delivered
- service level management will be based upon assessment of the required performance by Southampton written into the contract and how that performance is provided by the service partner
- as well as assessments of whether services are delivered to agreed levels or volumes, it will also be necessary for Southampton to specify the quality of the service, which must be assessed by the creation of quality metrics
- key to assessing the service provided to Southampton is the baseline, or level from which the service levels and improvement can be measured, which necessitates that these will need to be agreed prior to the service commencing
- another essential component of managing service delivery is managing risk, which is covered in Section 5.6 Risk Management Strategy

Relationship management

- within the terms of the partnering contract there will inevitably be a degree of interdependency between Southampton and the partner, as this is a long term arrangement. There are three key factors for success, - trust, communication and recognition of mutual aims
- management structures for this contract need to be designed to facilitate a good working relationship, with the commitment of all staff involved
- information flows and communication levels are required to be established at the start of the contract and maintained throughout it's life, with three primary levels of communication:
 - operational (end user / technical support staff)
 - business (contract manager and relationship managers on both sides)
 - strategic (senior management/board of directors of partner)
- a set of procedures will be drawn up and agreed for raising issues and handling problems, in order that they be dealt with as early as possible, and at an appropriate level within the partnership

Contract administration

- contract administration is the formal governance of the contract and includes contract maintenance and change control, charges and cost monitoring, ordering and invoicing procedures, as well as management reporting arrangements
- contract administration is fundamental to the success of the contract, and to the relationship between Southampton and the partner and requires clear administrative procedures to be agreed at the onset of the contract as to who does what, when and how
- the contract documentation will need to accurately reflect administrative procedures, including when changes are made, and control procedures

- management reporting procedures must identify what information is passed to management about the service and will be included in the contract documentation

8.6 Risk management

8.6.1 Clearly a project of this scale and nature will carry a number of significant risks and a comprehensive risk register will need to be developed along with accompanying risk strategy. These documents would be developed in compliance with Southampton's approved methodology for assessing and managing risk and will be presented to the Project Management Board for approval.

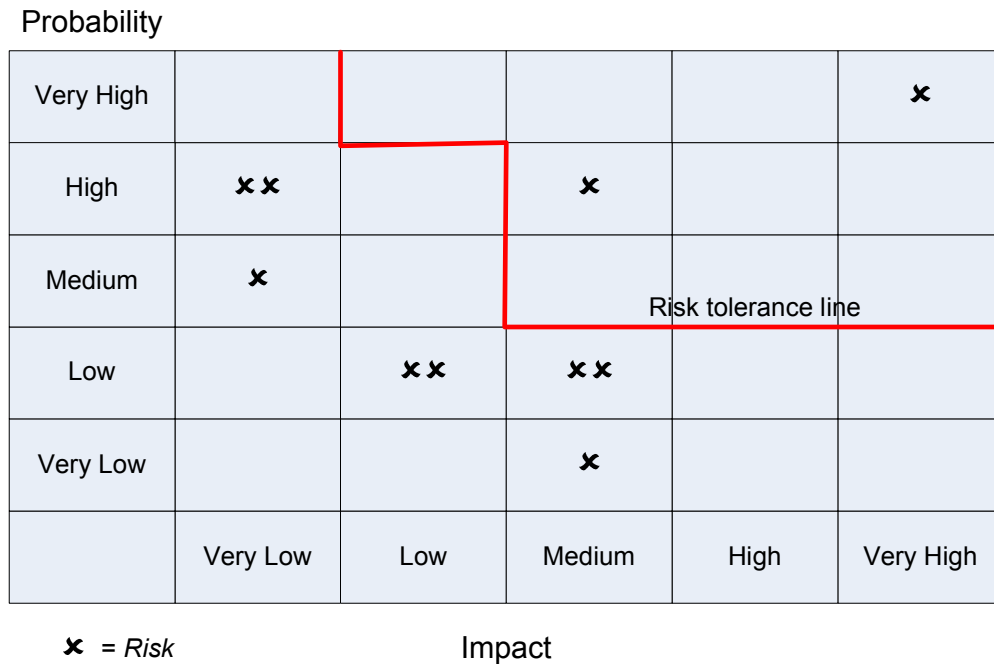
8.6.2 There are two main types of risk faced by the implementation of this project:

- risk involving the development and implementation of the partnership, and
- risk of the subsequent failure of the partnership

8.6.3 The risk strategy needs to address these two main areas of risk and a summary of the requirements of the risk strategy that should be used is included below:

- definition of how risks will be managed during the lifecycle of the project to be used to plan the way risks are handled within the project
- the risk strategy and supporting plan must acknowledge actual and potential threats to the successful delivery of a project and determine the activities required to minimise or eliminate them
- the risk plan needs to be capable of integration into, or co-ordination with, the project plan.
- a major concern is the appropriate communication of risk information, in particular where escalation is required. The 'summary risk profile'(SRP) is a simple mechanism to increase visibility of risks. It is a graphical representation of information normally found on a risk register.
- this graph should be updated in line with the risk register on a regular basis. The profile shows risks in terms of probability and severity of impact with the effects of mitigating action taken into account
- the SRP is often referred to as a probability/impact matrix. Each risk (indicated by * on the diagram) would normally have a number or other reference and supporting details.
- the position of the risk tolerance line would depend on the factors determined by the Project Management Board

Figure 17: Risk Tolerance



8.6.4 In compiling the project risk strategy there are some fundamental questions that will need to be addressed, including:

- what risks are to be managed
- how much risk is acceptable
- who is responsible for the risk management activities
- What relative significance time, cost, benefits, quality, stakeholders have in the management of programme risks

8.6.5 A table of initial project risk is shown below, with the main criteria being stated and assessed

Figure 18: Initial Project Risks:

Risk	Impact	Probability	Mitigation
Failure to meet timetable	High	High	Effective project management. Outline project plan defines required tasks and is resourced to deliver outcomes in defined timescales.
Project outcomes fail to match Council's expectations	High	Medium	Work closely in partnership with Council. Outline project plan defines project governance structures and allows for exception reporting and assessment of risks and issues.

Failure to deliver project within budget	Medium	Medium	Project is being undertaken by Tribal on a fixed fee basis.
Failure to secure support from staff and managers	Medium	High	Proactive engagement with staff and management. Communications plan to be developed as part of project inception.

8.7 Benefits realisation plan

8.7.1 The benefits realisation plan is aspirational at this stage of the project however, it needs to be compiled in order to track the realisation of benefits across the project. It will be developed as part of the full business case and in tandem with the procurement process.

8.7.2 The outline arrangements for benefits management that should be applied to this project are summarised below:

- the Benefits Realisation Plan (BPR) should clearly show what will happen, where and when the benefits will occur and who will be responsible for their delivery
- the plan for benefits needs to be integrated into, or co-ordinated with, the programme plan and should be very clear about handover and responsibilities for ongoing operations in the changed state (where the benefits will actually accrue)
- there should also be a tracking process which monitors achievement of benefits against expectations and targets. The tracking process must be capable of tracking both 'hard' (e.g. cost, headcount) and 'soft' (e.g. image) benefits and operates alongside the changed operation
- in addition, there should be evidence of realisation of actual benefits (through the tracking process). The benefits claimed should be defensible against independent (third party) scrutiny.

8.7.3 A fitness for purpose checklist for this project BPR will contain many items including:

- are the dates by which the benefits should accrue clearly understood and realistic?
- are the dates by which the benefits should accrue in line with the programme milestones and relevant project deliverables?
- are the actual benefits accruing compared to the projected benefits
- schedule detailing when each benefit or group of benefits will be realised
- identification of appropriate milestones when a programme benefit review could be carried out
- details of any handover activities, beyond the mere implementation of a deliverable output, to sustain the process of benefits realisation after the programme is closed

8.8 Post implementation reviews and project evaluation review

Post implementation reviews (PIR/s)

- 8.8.1 The Post Implementation Review (PIR) is a formal review of the project and is used to answer the question: "Did we achieve what we set out to do in business terms and if not, what should be done?"
- 8.8.2 The PIR is undertaken when there has been time to demonstrate the business benefits of a new service and for this major project there will be several PIRs over time.
- 8.8.3 PIRs are a key part of the benefits management process - benefits will not materialise simply through the implementation of change delivered by a project - they may also require a change in the way that the organisation and its staff work. Benefits must be actively managed to be achieved; the PIR is a key element in the benefits management process because it is used to assess whether the changes that have taken place have improved effectiveness and to make recommendations for further improvements (Programme management).
- 8.8.4 PIRs identify and appraise opportunities to improve the effectiveness of business change by maximising benefits and by minimising costs and risks - throughout its lifecycle a business change will consume resources and have the potential to deliver benefit. Over time and with changing circumstances the benefits profile will alter. PIRs examine ways of maximising benefits and minimising costs on an ongoing basis.
- 8.8.5 PIRs are not a one-off exercise - the programme of business change is for an extended period and the business system it supports may be in existence for an even longer period of time. The level of cost, risk and benefit delivered by the change must be reviewed periodically, following the first PIR. It may be appropriate to conduct abridged PIR's after the full PIR, to address only those key areas that reflect business priorities.
- 8.8.6 Reviews must be conducted in an open manner; Southampton must be prepared to learn - to get most value, reviews should be conducted openly and participants must be prepared to make and take constructive criticism. It is only in this way that real lessons will be learned or improvements to business processes and supporting infrastructure made.
- 8.8.7 Recommendations need to be implemented by the organisation if reviews are to add real value - recommendations for improvements should add value to the business. This will involve changing the way the business system or process operates in some way.
- 8.8.8 Recommendations must be sufficiently robust for the organisation to be able to act upon them. Importantly, good practice in project management and business operations should be included in recommendations for incorporation in the organisation's guidelines for good practice.
- 8.8.9 The PIR's will help Southampton to assess the contribution of this business change project to business objectives - these objectives, and the metrics that will be applied to measure their achievement, will be stated in the full business case and supporting strategies.
- 8.8.10 End Project Report (EPR) and PIR are related but have different objectives - an EPR is a one-off exercise at the end of a project with the key objective of learning lessons and feeding them into the organisation's project management processes and procedures for the benefit of future projects.

- 8.8.11 The objective of the PIR's is to ensure that the maximum benefit is obtained for Southampton through the business change that the project made possible, and to make recommendations if the benefits are not obtained.

Timing

- 8.8.12 The timing of the first PIR will depend on the predicted benefits stream brought about by the business change, as predicted in the full business case. Although time must be allowed for benefits to accrue, it is important that the PIR is completed early enough to identify any problems. Remedial action can thus be taken promptly if predicted benefits are not realised. The initial PIR should usually be carried out 6-18 months after commencement of the project.

Initiation and responsibility

- 8.8.13 The PD, as the owner of the business case for this project, will have overall responsibility for tracking the contribution made to the business in terms of benefits realised.

- 8.8.14 The lead responsibility for the PIR will fall to the business area(s) where the day-to-day business change has been implemented and where the responsibility for realising benefits lies.

- 8.8.15 The scope of the PIR will be dictated largely by the full business case, which will have identified the areas of business change and where benefits were to have been realised. As a minimum the PIR will usually assess:

- the achievement (to date) of business case objectives
- costs and benefits to date against forecast, and other benefits realised and expected
- continued alignment to the business strategy
- the effectiveness of revised business operations (functions, processes, staff numbers etc.)
- ways of maximising benefits and minimising cost and risk
- the sensitivity of the business service to expected business change
- business and user satisfaction.

Identifying key sources of information

- 8.8.16 The views of stakeholders and customers form the basis for information gathered at interviews and workshops. The main sources of documented information will include:

- the business case
- information kept to track costs and benefits
- previous PIR reports.

Common problems

- 8.8.17 There are a number of common problems that may be encountered in carrying out PIRs and the review team need to be aware of these, some of which are summarised below:

- With more than one organisation involved, there is often no common standard for measuring and recording the benefits and costs
- lack of documentation. Much factual information will come from project documentation, especially the full business case
- lack or inadequacy of baseline measures. For a PIR, measures of success can only be made accurately by comparing the level of performance before the project implementation against that at the time of the PIR

Project evaluation review

8.8.18 This report is the Project Manager's report to the PD (who will share the report with the project board) on how well the project has performed against its Project Initiation Document, including the original planned cost, schedule and risk allowances, the revised business case and final version of the project plan.

8.8.19 The report will include a number of sections addressing all areas of the project including:

- Achievement of the project's objectives, summarising whether the project was successful or not
- Performance against the planned target time and cost
- The effect on the original project plan and business case of any changes that were approved
- Final analysis on change issues received during the project
- The total impact of approved changes
- Analysis for all quality work carried out.

Checklist

8.8.20 The report should answer the following questions:

- Does the report describe the impact of the approved changes on the Project Initiation Document \ Project brief?
- Does the report cover all the benefits that can be assessed at this time?
- Does the quality of work done during the project meet the quality expectations of the Customer?

8.9 Contingency plan

8.9.1 As we have already identified, once committed to the process, a delay or failure in the procurement of a partner has the potential to threaten service continuity.

8.9.2 A Contingency Plan will be essential to summarise the outline arrangements for managing unexpected events, including a fallback position if the partnership implementation project is delayed for any reason. It will be necessary cover possible ways of ensuring the continuity of Highways services in the interim period.

8.9.3 This contingency plan will be developed as part of the outline business case development

9 NEXT STEPS

9.1.1 If the Council approves this SBC the next steps for this project will include the following;

- continuing Member engagement including the establishment of a cross party steering group;
- develop a detailed business affordability model;
- produce the remaining key elements of the OGC Outline and Detailed Business Case methodology, with the development of a comprehensive project plan to support this – target date for approval of Outline Business Case by members is November 2007
- proceed to European Procurement via OJEU Competitive Dialogue route – subject to approval by Corporate Procurement and Legal Services;
- completion of TAMP and development of investment profiles and equivalent service levels

Appendix 1: Detailed Options Appraisal Outputs



PROJECT TEAM WORKSHOP OUTPUTS

Highways Post 2009 Strategy "Flexible Model"

PROJECT OBJECTIVES - <i>THE MEANS BY WHICH THE SUCCESS OF THE PROJECT WILL BE MEASURED</i>	COUNCIL OBJECTIVES - <i>THE LINK BETWEEN THE PROJECT AND COUNCIL OBJECTIVES</i>	WEIGHTING	OPTION 1	OPTION 2	OPTION 3	OPTION 4	OPTION 5	OPTION 6
Flexibility - ability to support both the "flexible" and the long term delivery model	Improving the street scene and the environment	5	1 5	1 5	1 5	2 10	1 5	0 0
Ability to respond positively and rapidly to changes in service requirements and demands	Improving the street scene and the environment	5	1 5	1 5	1 5	3 15	2 10	0 0
Ability to deliver improved value for money	Improving the street scene and the environment	5	1 5	2 10	1 5	3 15	3 15	0 0
Ability to improve financial control	Improving the street scene and the environment	4	1 4	2 8	2 8	3 12	3 12	0 0
Ability to improve asset management	Improving the street scene and the environment	4	1 4	2 8	2 8	3 12	3 12	0 0
Ability to improve maintenance management	Improving the street scene and the environment	4	1 4	2 8	2 8	3 12	3 12	0 0
Ability to derive economies of scale	Improving the street scene and the environment	3	0 0	1 3	1 3	3 9	3 9	0 0
Ability to provide additional investment in technology	Improving the street scene and the environment	3	0 0	0 0	0 0	2 6	2 6	0 0
Ability to deliver an innovative, customer focused, quality driven service	Improving the street scene and the environment	3	1 3	1 3	1 3	2 6	1 3	0 0
Ability to deliver reduced environmental impact and carbon foot print for service	Improving the street scene and the environment	2	1 2	2 4	2 4	2 4	2 4	0 0
TOTAL SCORES			32	54	49	101	88	
%AGE SCORE (= SCORE divided by (WEIGHTING x SCORE))			28%	47%	43%	89%	77%	

DELIVERY OPTIONS	INPUT DESCRIPTION OF ALL OPTIONS (These will cascade through all worksheets)
OPTION 1	Fully In House
OPTION 2	In Sourcing - In-house with consultancy support (The Status Quo)
OPTION 3	Public/Public Partnership
OPTION 4	Public Private Partnership
OPTION 5	Strategic Partnership
OPTION 6	Externalisation/outsourcing
OPTION 7	
OPTION 8	
OPTION 9	
OPTION 10	

WEIGHTING is a range from 0 to 5 where 0 = no impact and 5 is major impact
 SCORING is a range of 4 from 0 to 3 where 0 = no impact; 1 = peripheral contribution; 2 = some contribution; 3 = major and demonstrable delivery of objective
 Areas shaded in grey are data input cells. The rest of the calculations are automatic
A red total score is the best case scenario but should be balanced against the whole life cost and the risk analysis elements



Initial Options Appraisal Outputs Following Members Workshop

Highways Post 2009 Strategy "Flexible Model"

PROJECT OBJECTIVES - THE MEANS BY WHICH THE SUCCESS OF THE PROJECT WILL BE MEASURED	COUNCIL OBJECTIVES - THE LINK BETWEEN THE PROJECT AND COUNCIL OBJECTIVES	WEIGHTING	OPTION 1	OPTION 2	OPTION 3	OPTION 4	OPTION 5	OPTION 6
Flexibility - ability to support both the "flexible" and the long term delivery model	Improving the street scene and the environment	5	1 5	1 5	1 5	2 10	1 5	0 0
Ability to respond positively and rapidly to changes in service requirements and demands	Improving the street scene and the environment	5	1 5	1 5	1 5	3 15	2 10	0 0
Ability to deliver improved value for money (Includes added value and Com benefits)	Improving the street scene and the environment	5	1 5	2 10	1 5	3 15	3 15	0 0
Ability to improve financial control	Improving the street scene and the environment	4	1 4	2 8	2 8	3 12	3 12	0 0
Ability to improve asset management	Improving the street scene and the environment	4	1 4	2 8	2 8	3 12	3 12	0 0
Ability to improve maintenance management	Improving the street scene and the environment	4	1 4	2 8	2 8	3 12	3 12	0 0
Ability to derive economies of scale	Improving the street scene and the environment	3	0 0	1 3	1 3	3 9	3 9	0 0
Ability to provide additional investment in technology	Improving the street scene and the environment	3	0 0	0 0	0 0	2 6	2 6	0 0
Ability to deliver an innovative, customer focused, quality driven service	Improving the street scene and the environment	3	1 3	1 3	1 3	2 6	1 3	0 0
Ability to deliver reduced environmental impact and carbon foot print for service	Improving the street scene and the environment	3	1 3	2 6	2 6	2 6	2 6	0 0
TOTAL SCORES			33	56	51	103	90	
%AGE SCORE (= SCORE divided by (WEIGHTING x SCORE))			28%	48%	44%	88%	77%	

DELIVERY OPTIONS	INPUT DESCRIPTION OF ALL OPTIONS (These will cascade through all worksheets)
OPTION 1	Fully In House
OPTION 2	In Sourcing - In-house with consultancy support (The Status Quo)
OPTION 3	Public/Public Partnership
OPTION 4	Public Private Partnership
OPTION 5	Strategic Partnership
OPTION 6	Externalisation/outsourcing
OPTION 7	
OPTION 8	
OPTION 9	
OPTION 10	

WEIGHTING is a range from 0 to 5 where 0 = no impact and 5 is major impact

SCORING is a range of 4 from 0 to 3 where 0 = no impact; 1 = peripheral contribution; 2 = some contribution; 3 = major and demonstrable delivery of objective

Areas shaded in grey are data input cells. The rest of the calculations are automatic

A red total score is the best case scenario but should be balanced against the whole life cost and the risk analysis elements

Project objectives shaded green are "gateway" objectives and require a score of 1 or more for the appraisal to continue. A score of 0 against any gateway objective automatically rules out an option



Initial Options Appraisal Outputs Following Staff Workshop 19/04/07

Highways Post 2009 Strategy "Flexible Model"

PROJECT OBJECTIVES - THE MEANS BY WHICH THE SUCCESS OF THE PROJECT WILL BE MEASURED	COUNCIL OBJECTIVES - THE LINK BETWEEN THE PROJECT AND COUNCIL OBJECTIVES	WEIGHTING	OPTION 1	OPTION 2	OPTION 3	OPTION 4	OPTION 5	OPTION 6
Flexibility - ability to support both the "flexible" and the long term delivery model	Improving the street scene and the environment	5	1 5	1 5	1 5	2 10	0 0	0 0
Ability to respond positively and rapidly to changes in service requirements and demands	Improving the street scene and the environment	5	1 5	1 5	1 5	3 15	0 0	0 0
Ability to deliver improved value for money (Includes added value and Con benefits)	Improving the street scene and the environment	5	1 5	2 10	1 5	3 15	0 0	0 0
Ability to improve financial control	Improving the street scene and the environment	4	1 4	3 12	2 8	3 12	0 0	0 0
Ability to improve asset management	Improving the street scene and the environment	4	1 4	2 8	2 8	3 12	0 0	0 0
Ability to improve maintenance management	Improving the street scene and the environment	4	1 4	2 8	2 8	3 12	0 0	0 0
Ability to derive economies of scale	Improving the street scene and the environment	3	0 0	1 3	1 3	3 9	0 0	0 0
Ability to provide additional investment in technology	Improving the street scene and the environment	3	0 0	0 0	0 0	2 6	0 0	0 0
Ability to deliver an innovative, customer focused, quality driven service	Improving the street scene and the environment	3	1 3	1 3	1 3	2 6	0 0	0 0
Ability to deliver reduced environmental impact and carbon footprint for service	Improving the street scene and the environment	3	1 3	2 6	2 6	2 6	0 0	0 0
TOTAL SCORES			33	60	51	103		
%AGE SCORE (= SCORE divided by (WEIGHTING x SCORE))			28%	51%	44%	88%		

DELIVERY OPTIONS

INPUT DESCRIPTION OF ALL OPTIONS (These will cascade through all worksheets)

OPTION 1	Fully In House
OPTION 2	In Sourcing - In-house with consultancy support (The Status Quo)
OPTION 3	Public/Public Partnership
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OPTION 8	
OPTION 9	
OPTION 10	

WEIGHTING is a range from 0 to 5 where 0 = no impact and 5 is major impact

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Areas shaded in grey are data input cells. The rest of the calculations are automatic

A red total score is the best case scenario but should be balanced against the whole life cost and the risk analysis elements

Project objectives shaded green are "gateway" objectives and require a score of 1 or more for the appraisal to continue. A score of 0 against any gateway objective automatically rules out an option

Appendix 2: Risk Assessment – Initial Risk Register



Highways Post 2009 Strategy "Flexible Model"
RISK ASSESSMENT

Risk profile

LIKELIHOOD		IMPACT	
A	Very high	1	Catastrophic
B	High	2	Critical
C	Significant	3	Significant
D	Low	4	Marginal
E	Very low	5	Negligible
F	Almost impossible		

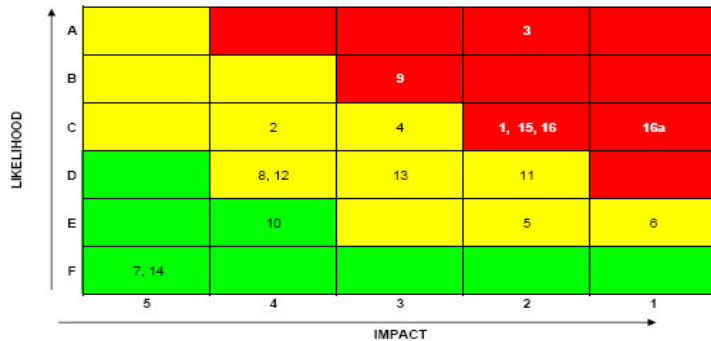
TYPE OF RISK

- Legislative
- Social
- Customer / Citizen
- People
- Political
- Economic
- Professional/Managerial
- Environmental
- Information
- Fraud
- Legal
- Physical
- Financial
- Technological
- Partnerships/Contractual/Competitive

OPTION 1 - Fully In House

OWNED BY: Highways Post 2009 Project Team
OVERALL RISK: **MEDIUM**

Last Review Date: 30/04/07
Next Review Date:



Ref No	Description of Risk	Type of Risk	Risks Rating	Existing Risk Controls	Lead Person	Action to Manage Risk
1	Change of Political Arrangements	Political	C2	Delivery model selection process	HHPS	Options Appraisal Process
2	Changes in interest rates	Economic	C4	Existing budgetary and borrowing controls	HHPS	Financial appraisal of service model
3	Failure to recruit and retain staff	Social	A2	Recruitment and selection process	HHPS	TBC
4	Failure to invest in technology	Technological	C2	Existing business planning and investment processes	HHPS	TBC
5	Failure to integrate technology	Technological	E2	Internal IT selection & Procurement Processes	HHPS	Comply is internal Process
6	Failure to comply with legislation	Legislative	E1	Managed compliance with legislative and statutory requirements	HHPS	Existing controls
7	Failure to apply TUPE regulations	Legislative	F6	Non required	HHPS	Non required
8	Increase in Environmental Impact	Environmental	D4	Compliance with environmental legislation and policy	HHPS	TBC
9	Lack of Staff Capacity and Skills	Professional/Managerial	B3	Recruitment and selection process & training and development	HHPS	TBC
10	The misappropriation of assets	Fraud	E4	Financial Regs and Standing Orders	HHPS	Ensure compliance
11	Failure to plan & control expenditure	Financial	D2	Capital monitoring controls and Board	HHPS	Ensure compliance
12	Increase in liability from 3rd party claims	Legal	D4	Compliance with H-way Inspection Regime	HHPS	Ensure compliance
13	Failure to manage health and safety	Physical	D3	Compliance with H & S management framework	HHPS	Ensure compliance
14	Contractor/Partner fails to deliver	Partnerships/Contractual/Competitive	F6	Non required - does not apply	HHPS	non required
15	Failure to demonstrate or maintain competitiveness	Partnerships/Contractual/Competitive	C2	Limited VFM measures	HHPS	Introduce comprehensive effective VFM measures
16	Failure to meet customer expectations	Customer / Citizen	C2	Non in place	HHPS	service specific requirement and satisfaction surveys
16a	In ability of SCC to deal with the required cultural change	People	F1	Non	HHPS	Change/improvement to include staff engagement and development



Highways Post 2009 Strategy "Flexible Model"

RISK ASSESSMENT

Risk profile

LIKELIHOOD		IMPACT
A Very high	1	Catastrophic
B High	2	Critical
C Significant	3	Significant
D Low	4	Marginal
E Very low	5	Negligible
F Almost impossible		

TYPE OF RISK

- Legislative
- Social
- Customer / Citizen
- People
- Political
- Economic
- Professional/Managerial
- Environmental
- Information
- Fraud
- Legal
- Physical
- Financial
- Technological
- Partnerships/Contractual/Competitive

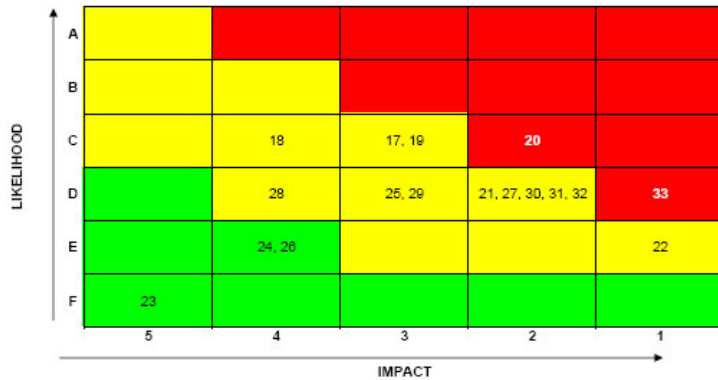
OPTION 2 - In Sourcing - In-house with consultancy support (The Status Quo)

OWNED BY Highways Post 2009 Project Team

OVERALL RISK **MEDIUM**

Last Review Date: 30/04/07

Next Review Date:



Ref No	Description of Risk	Type of Risk	Risks Rating	Existing Risk Controls	Lead Person	Action to Manage Risk
17	Change of Political Arrangements	Political	C3	Delivery model selection process	HHPS	Options Appraisal Process
18	Changes in interest rates	Economic	C4	Existing budgetary and borrowing controls	HHPS	Financial appraisal of service model
19	Failure to recruit and retain staff	Social	C3	Recruitment and selection process	HHPS	TBC
20	Failure to invest in technology	Technological	C2	Existing business planning and investment processes	HHPS	TBC
21	Failure to integrate technology	Technological	D2	Internal IT selection & Procurement Processes	HHPS	Comply with internal Process
22	Failure to comply with legislation	Legislative	E1	Managed compliance with legislative and statutory requirements	HHPS	Existing controls
23	Failure to apply TUPE regulations	Legislative	F5	Non required	HHPS	Non required
24	Increase in Environmental Impact	Environmental	E4	Compliance with environmental legislation and policy	HHPS	TBC
25	Lack of Staff Capacity and Skills	Professional/Managerial	D3	Internal training and development & consultant/contractor support	HHPS	TBC
26	The misappropriation of assets	Fraud	E4	Financial Regs and Standing Orders plus contract governance	HHPS	Ensure compliance
27	Failure to plan & control expenditure	Financial	D2	Capital monitoring controls and Board	HHPS	Ensure compliance
28	Increase in liability from 3rd party claims	Legal	D4	Compliance with H-way Inspection Regime	HHPS	Ensure compliance
29	Failure to manage health and safety	Physical	E3	Compliance with H & S management framework	HHPS	Ensure compliance
30	Contractor/Partner fails to deliver	Partnerships/Contractual/Competitive	D2	Contract Specification and Monitoring	HHPS	Clear Specification and improved management and administration
31	Failure to demonstrate or maintain competitiveness	Partnerships/Contractual/Competitive	C2	Limited VFM measures	HHPS	Introduce comprehensive effective VFM measures
32	Failure to meet customer expectations	Customer / Citizen	C2	Non in place	HHPS	Introduce service specific requirement and satisfaction surveys
33	In ability of SCC to deal with the required cultural change	People	F1	Non	HHPS	Change/improvement to include staff engagement and development



Highways Post 2009 Strategy "Flexible Model"
RISK ASSESSMENT

Risk profile

LIKELIHOOD		IMPACT	
A	Very high	1	Catastrophic
B	High	2	Critical
C	Significant	3	Significant
D	Low	4	Marginal
E	Very low	5	Negligible
F	Almost impossible		

TYPE OF RISK

- Legislative
- Social
- Customer / Citizen
- People
- Political
- Economic
- Professional/Managerial
- Environmental
- Information
- Fraud
- Legal
- Physical
- Financial
- Technological
- Partnerships/Contractual/Competitive

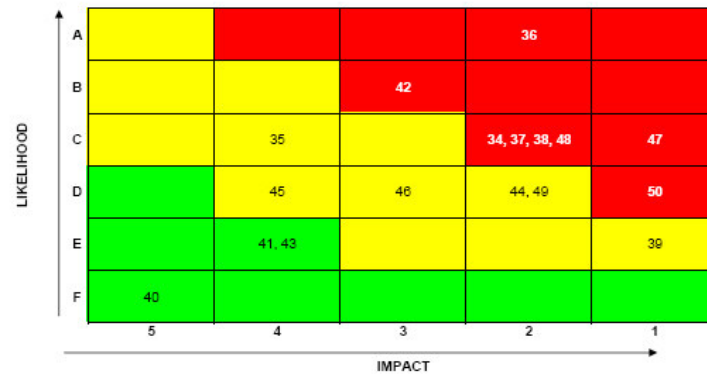
OPTION 3 - Public/Public Partnership

OWNED BY **Highways Post 2009 Project Team**

Last Review Date: **30/04/07**

OVERALL RISK **HIGH**

Next Review Date:



Ref No	Description of Risk	Type of Risk	Risks Rating	Existing Risk Controls	Lead Person	Action to Manage Risk
34	Change of Political Arrangements	Political	C2	Delivery model selection process	HHPS	Options Appraisal Process
35	Changes in interest rates	Economic	C4	Existing budgetary and borrowing controls	HHPS	Financial appraisal of service model
36	Failure to recruit and retain staff	Social	A2	Recruitment and selection process	HHPS	TBC
37	Failure to invest in technology	Technological	C2	Existing business planning and investment processes	HHPS	TBC
38	Failure to integrate technology	Technological	C2	Internal IT selection & Procurement Processes	HHPS	Integration specified as a requirement of any IT investment
39	Failure to comply with legislation	Legislative	E1	Managed compliance with legislative and statutory requirements	HHPS	Compliance to be specified and liability identified clearly at set up
40	Failure to apply TUPE regulations	Legislative	F5	TUPE Regulations	HHPS	Non - TUPE is not Required
41	Increase in Environmental Impact	Environmental	E4	Compliance with environmental legislation and policy	HHPS	TBC
42	Lack of Staff Capacity and Skills	Professional/Managerial	B3	Recruitment and selection process + Training and development	HHPS	TBC
43	The misappropriation of assets	Fraud	E4	Financial Regs and Standing Orders plus partnership governance	HHPS	Effective governance arrangements to be agreed during set up
44	Failure to plan & control expenditure	Financial	D2	Capital monitoring controls and Board	HHPS	Ensure ext controls are enhanced in governance arrangements
45	Increase in liability from 3rd party claims	Legal	D4	Compliance with H-way Inspection Regime	HHPS	Ensure compliance is embedded in selection and governance process
46	Failure to manage health and safety	Physical	D3	Compliance with H & S management framework	HHPS	Ensure compliance is embedded in selection and governance process
47	Contractor/Partner/Partnership fails to deliver	Partnerships/Contractual/Competitive	C1	Non	HHPS	Clearly defined and agreed common objectives for partnership
48	Failure to demonstrate or maintain competitiveness	Partnerships/Contractual/Competitive	C2	Limited VFM measures	HHPS	Introduce comprehensive effective VFM measures & open book accounts with contractors
49	Failure to meet customer expectations	Customer / Citizen	D2	Non in place	HHPS	Ensure a framework for service specific customer requirement and satisfaction surveys is agreed during set up
50	In ability of SCC to deal with the required cultural change	People	D1	Non	HHPS	Migration to partnership to include staff engagement and development at its core



Highways Post 2009 Strategy "Flexible Model"

RISK ASSESSMENT

Risk profile

LIKELIHOOD		IMPACT
A Very high	1	Catastrophic
B High	2	Critical
C Significant	3	Significant
D Low	4	Marginal
E Very low	5	Negligible
F Almost impossible		

TYPE OF RISK

- Legislative
- Social
- Customer / Citizen
- People
- Political
- Economic
- Professional/Managerial
- Environmental
- Information
- Fraud
- Legal
- Physical
- Financial
- Technological
- Partnerships/Contractual/Competitive

OPTION 4 - Public Private Partnership

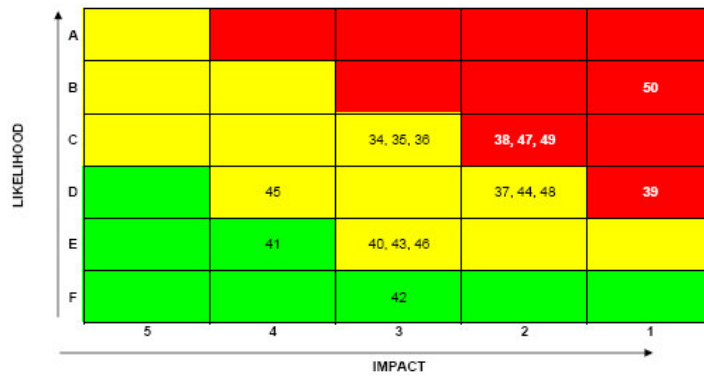
OWNED BY Highways Post 2009 Project Team

Last Review Date:

30/04/07

OVERALL RISK **MEDIUM**

Next Review Date:



Ref No	Description of Risk	Type of Risk	Risks Rating	Existing Risk Controls	Lead Person	Action to Manage Risk
51	Change of Political Arrangements	Political	C3	Delivery model selection process	HHPS	Options Appraisal Process
52	Changes in interest rates	Economic	C3	Existing budgetary and borrowing controls	HHPS	Financial appraisal of service model
53	Failure to recruit and retain staff	Social	C3	Recruitment and selection process	HHPS	TBC
54	Failure to invest in technology	Technological	D2	Existing business planning and investment processes	HHPS	TBC
55	Failure to integrate technology	Technological	C2	Internal IT selection & Procurement Processes	HHPS	Integration specified as a requirement of any IT investment
56	Failure to comply with legislation	Legislative	D1	Managed compliance with legislative and statutory requirements	HHPS	Compliance to be specified and liability identified clearly at set up
57	Failure to apply TUPE regulations	Legislative	E3	TUPE Regulations	HHPS	Non - TUPE is not intended as a requirement at this stage
58	Increase in Environmental Impact	Environmental	E4	Compliance with environmental legislation and policy	HHPS	TBC
59	Lack of Staff Capacity and Skills	Professional/Managerial	F3	Effective partnership procurement process	HHPS	Access to wider staff & skills pool agreed during set up
60	The misappropriation of assets	Fraud	E3	Financial Regs and Standing Orders plus partnership governance	HHPS	Effective governance arrangements to be agreed during procurement
61	Failure to plan & control expenditure	Financial	D2	Capital monitoring controls and Board	HHPS	Ensure ext controls are enhanced in governance arrangements
62	Increase in liability from 3rd party claims	Legal	D4	Compliance with H-way Inspection Regime	HHPS	Ensure compliance is embedded in selection and governance process
63	Failure to manage health and safety	Physical	E3	Compliance with H & S management framework	HHPS	Ensure compliance is embedded in selection and governance process
64	Contractor/Partner fails to deliver	Partnerships/Contractual/Competitive	C2	Effective partnership selection & procurement process	HHPS	Clearly defined and agreed common objectives for partnership
65	Failure to demonstrate or maintain competitiveness	Partnerships/Contractual/Competitive	D2	Limited VFM measures	HHPS	Introduce comprehensive effective VFM measures & open book accounts
66	Failure to meet customer expectations	Customer / Citizen	C2	Non in place	HHPS	Ensure a framework for service specific customer requirement and satisfaction surveys is agreed during set up
67	In ability of SCC to deal with the required cultural change	People	B1	Non	HHPS	Migration to partnership to include staff engagement and development at its core



Highways Post 2009 Strategy "Flexible Model"

RISK ASSESSMENT

Risk profile

LIKELIHOOD		IMPACT	
A Very high	1	Catastrophic	
B High	2	Critical	
C Significant	3	Significant	
D Low	4	Marginal	
E Very low	5	Negligible	
F Almost impossible			

TYPE OF RISK

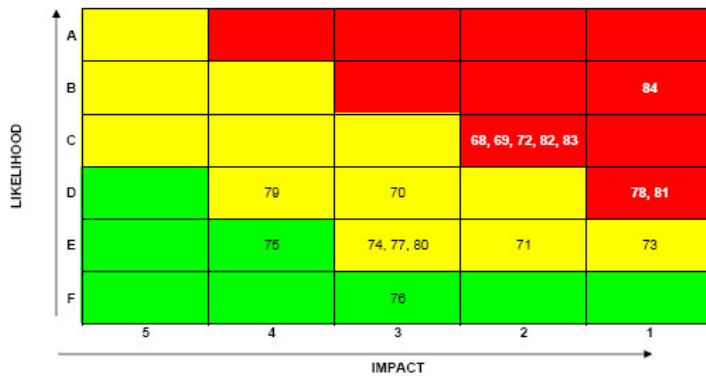
- Legislative
- Social
- Customer / Citizen
- People
- Political
- Economic
- Professional/Managerial
- Environmental
- Information
- Fraud
- Legal
- Physical
- Financial
- Technological
- Partnerships/Contractual/Competitive

OPTION 5 - Strategic Partnership

OWNED BY **Highways Post 2009 Project Team**

Last Review Date: **30/04/07**
Next Review Date:

OVERALL RISK **HIGH**



Ref No	Description of Risk	Type of Risk	Risks Rating	Existing Risk Controls	Lead Person	Action to Manage Risk
68	Change of Political Arrangements	Political	C2	Delivery model selection process	HHPS	Options Appraisal Process
69	Changes in interest rates	Economic	C2	Existing budgetary and borrowing controls	HHPS	Financial appraisal of service model
70	Failure to recruit and retain staff	Social	D3	Recruitment and selection process	HHPS	TBC
71	Failure to invest in technology	Technological	E2	Existing business planning and investment processes	HHPS	TBC
72	Failure to integrate technology	Technological	C2	Internal IT selection & Procurement Processes	HHPS	Integration specified as a requirement of any IT investment
73	Failure to comply with legislation	Legislative	E1	Managed compliance with legislative and statutory requirements	HHPS	Compliance to be specified and liability identified clearly at set up
74	Failure to apply TUPE regulations	Legislative	E3	TUPE Regulations	HHPS	Non - TUPE is not intended as a requirement at this stage
75	Increase in Environmental Impact	Environmental	E4	Compliance with environmental legislation and policy	HHPS	TBC
76	Lack of Staff Capacity and Skills	Professional/Managerial	F3	Effective partnership procurement process	HHPS	Access to wider staff & skills pool agreed during set up
77	The misappropriation of assets	Fraud	E3	Financial Regs and Standing Orders plus partnership governance	HHPS	Effective governance arrangements to be agreed during procurement
78	Failure to plan & control expenditure	Financial	D2	Capital monitoring controls and Board	HHPS	Ensure ext controls are enhanced in governance arrangements
79	Increase in liability from 3rd party claims	Legal	D4	Compliance with H-way Inspection Regime	HHPS	Ensure compliance is embedded in selection and governance process
80	Failure to manage health and safety	Physical	E3	Compliance with H & S management framework	HHPS	Ensure compliance is embedded in selection and governance process
81	Contractor/Partner fails to deliver	Partnerships/Contractual/Competitive	D1	Effective partnership selection & procurement process	HHPS	Clearly defined and agreed common objectives for partnership
82	Failure to demonstrate or maintain competitiveness	Partnerships/Contractual/Competitive	C2	Limited VFM measures	HHPS	Introduce comprehensive effective VFM measures & open book accounts
83	Failure to meet customer expectations	Customer / Citizen	C2	Non in place	HHPS	Ensure a framework for service specific customer requirement and satisfaction surveys is agreed during set up
84	Inability of SCC to deal with the required cultural change	People	B1	Non	HHPS	Migration to partnership to include staff engagement and development at its core



Highways Post 2009 Strategy "Flexible Model"

RISK ASSESSMENT

Risk profile

LIKELIHOOD		IMPACT
A Very high	1	Catastrophic
B High	2	Critical
C Significant	3	Significant
D Low	4	Marginal
E Very low	5	Negligible
F Almost impossible		

TYPE OF RISK

- Legislative
- Social
- Customer / Citizen
- People
- Political
- Economic
- Professional/Managerial
- Environmental
- Information
- Fraud
- Legal
- Physical
- Financial
- Technological
- Partnerships/Contractual/Competitive

OPTION 6 - Externalisation/outourcing

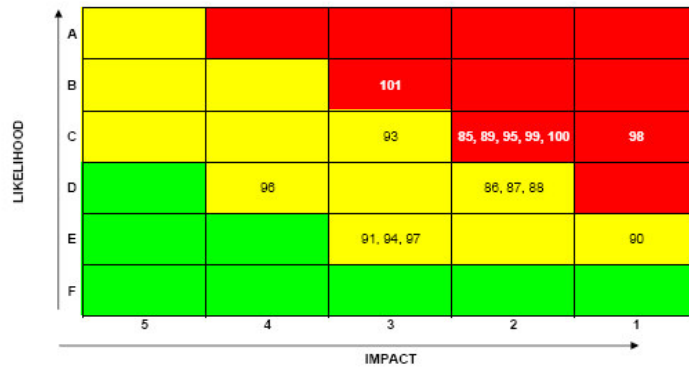
OWNED BY

OVERALL RISK **MEDIUM**

Last Review Date:

30/04/07

Next Review Date:



Ref No	Description of Risk	Type of Risk	Risks Rating	Existing Risk Controls	Lead Person	Action to Manage Risk
85	Change of Political Arrangements	Political	C2	Delivery model selection process	HHPS	Options Appraisal Process
86	Changes in interest rates	Economic	D2	Existing budgetary and borrowing controls	HHPS	Financial appraisal of service model
87	Failure to recruit and retain staff	Social	D2	non - would be contractors responsibility	HHPS	Ensure requirements are clear in contract specification
88	Failure to invest in technology	Technological	E2	non - would be contractors responsibility	HHPS	Ensure requirements are clear in contract specification
89	Failure to integrate technology	Technological	C2	Internal IT selection & Procurement Processes	HHPS	Integration specified as a requirement of any IT investment
90	Failure to comply with legislation	Legislative	E2	Managed compliance with legislative and statutory requirements	HHPS	Compliance to be specified and liability identified clearly at set up
91	Failure to apply TUPE regulations	Legislative	E3	TUPE Regulations	HHPS	Develop and implement transfer plan
92	Increase in Environmental Impact	Environmental	E4	Compliance with environmental legislation and policy	HHPS	TBC
93	Lack of Staff Capacity and Skills	Professional/Managerial	C3	non - would be contractors responsibility	HHPS	Ensure requirements are clear in contract specification
94	The misappropriation of assets	Fraud	E3	Financial Regs and Standing Orders plus partnership governance	HHPS	Effective governance arrangements to be specified during procurement
95	Failure to plan & control expenditure	Financial	C2	Capital monitoring controls and Board	HHPS	Ensure ext controls are enhanced in governance arrangements
96	Increase in liability from 3rd party claims	Legal	D4	Compliance with H-way Inspection Regime	HHPS	Ensure compliance is specified in selection and governance process
97	Failure to manage health and safety	Physical	E3	Compliance with H & S management framework	HHPS	Ensure compliance is specified in selection and governance process
98	Contractor/Partner fails to deliver	Partnerships/Contractual/Competitive	D1	Effective partnership selection & procurement process	HHPS	Clearly defined and agreed common objectives for partnership
99	Failure to demonstrate or maintain competitiveness	Partnerships/Contractual/Competitive	C2	Limited VFM measures	HHPS	Specify a comprehensive effective VFM measures in contract
100	Failure to meet customer expectations	Customer / Citizen	C2	Non in place	HHPS	Ensure a framework for service specific customer requirement and satisfaction surveys is specified in contracts
101	Inability of SCC to deal with the required cultural change	People	B3	Non	HHPS	Migration to partnership to include staff engagement and development at its core