

EAST AYRSHIRE COUNCIL

DEVELOPMENT SERVICES COMMITTEE – 8 March 2006

PROCUREMENT OF ENGINEERING WORK AND ROADS CONTRACTS BUSINESS PLAN

Report by Executive Director of Development and Property Services

1 PURPOSE OF REPORT

- 1.1** To inform Members of the projected requirement for the procurement of engineering works under the control of the Department of Development & Property Services and to recommend approval of the business plan for the Roads Contracts Unit as Best Value suppliers for a range of work required to be contracted by the Department.

2 BACKGROUND

- 2.1** The Council requires to procure a range of engineering contract work funded through the Development Services Committee's capital and revenue programmes. This includes footway and carriageway maintenance, traffic management, traffic light and streetlight maintenance and replacement, winter maintenance and structural engineering works including flood prevention.
- 2.2** The Roads Contracts Unit has the capability to carry out some of this work, primarily carriageway and footway maintenance, traffic management and winter maintenance. In addition to work carried out for Development & Property Services' funded programmes the Roads Contracts Unit carries out small scale projects for the roads capital programme and other department of the Council, principally funded from the general services capital programme. As well as carrying out engineering works the Roads Contracts Unit also provides the operational management of the Council's off-street car parks.

3 PROCUREMENT OF ENGINEERING SERVICES

- 3.1** The attached table sets out the total procurement requirements for services funded by the Development Services Committee over the next year, together with the amounts assigned to the Roads Contracts Unit and to private contractors. The requirement to achieve best value in procurement of engineering works is built into the procurement policy through the application of the following principles:
- A "mixed economy" in which a substantial proportion of work is passed to private contractors
 - Work allocated to the in-house contractor is in itself subject to a business planning process which demonstrates best value (see section below)

4 ROADS CONTRACTS UNIT – REVIEW OF 2005/2006

4.1 Over the last year key developments have included:

- There have been continued improvements in the quality of work
- The Unit has been successful in winning internal and external contracts in competition
- Competitiveness in undertaking footway work has been improved by sub-contracting certain activities in which the Unit does not have a high level of skill
- There has been continued rationalisation of the vehicle fleet

5 ROADS CONTRACTS UNIT BUSINESS PLAN FOR 2006/2007

5.1 The business plan for the Roads Contracts Unit for the next financial year is attached. This sets out financial projections showing that the Unit will exceed the nationally set financial targets of break-even after covering capital charges. The projections do not include additional work which is likely to be available to Roads Contracts as a result of recent announcements on additional funding by the Scottish Executive or projects funded through other income streams.

5.2 The business plan sets out a clear strategy to achieve best value in the delivery of its current services. The key features of this strategy are:

- Operations are based on the size of the unit required to carry out core winter maintenance requirements – other contract work ensures that the core workforce is employed throughout the year on work which can be carried out cost effectively. The current workforce size is now at a minimum required to provide winter maintenance services.
- A developed and approved strategy on procurement that complies with EU and Council policy.
- A legislative framework on external trading.
- Roads & Transportation will undertake a Service Review this year and as such action plans have been omitted to allow focus on the resultant service delivery appraisal.

5.3 The financial projections are based on analysis of the current year's performance to Period 11. The projections will be reviewed when final year figures have become available and any major revisions required will be reported through the budgetary review process.

6 BEST VALUE LEGISLATION

6.1 The business plan incorporates the performance management systems in place that are required to demonstrate Best Value.

7 FINANCIAL IMPLICATIONS

- 7.1** The procurement plan for engineering works is consistent with the Council's revenue budget and capital plan recently approved. The Roads Contracts Unit's business plan shows a return on capital employed meeting statutory requirements.

8 LEGAL IMPLICATIONS

- 8.1** There are no legal implications arising from this report.

9 RECOMMENDATION

- 9.1** It is recommended that the Committee approve the business plan for the Roads Contracts Unit as attached.

James Lavery
Executive Director of Development & Property Services

28 February 2006
CN/YK

LIST OF BACKGROUND PAPERS

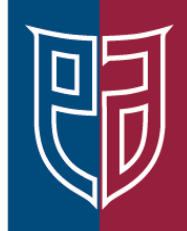
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For further information on the contents of this report contact Cameron Neill, Business Manager, Roads Contracts, on 01563 576 890

Implementation Officer: Cameron Neill

**DEVELOPMENT & PROPERTY SERVICES
PROCUREMENT OF ENGINEERINGS SERVICES**

	Total	Fees	Roads Contracts Unit	Streetlighting Unit	Private Contractors	Roads Contracts Sub- contractors	Total Private
	£000	£000	£000	£000	£000	£000	£000
Carriageways/footways	3,079	52	2,213	-	814	289	1,103
Miscellaneous roads maintenance	428	14	279	-	135	24	159
Routine roads maintenance	1,373	-	1,108	-	265	164	429
Structures	100	-	30	-	70	13	83
Winter maintenance	780	-	780	-	-	9	9
Capital and other	2,381	168	879	-	1,334	82	1,416
Streetlighting	674	-	46	628	-	-	-
Traffic lighting	25	-	-	-	25	-	25
Total	8,840	234	5,335	628	2,643	581	3,224
Total engineering services procured from private contractors: 36%							



East Ayrshire
COUNCIL

ROADS CONTRACTS BUSINESS UNIT

BUSINESS OPERATING PLAN

2006/2007

REVISED FEBRUARY 2006

Prepared by:..... Head of Roads
Date.....

Approved by:..... Director of Development & Property Services
Date.....

Validated by:..... Director of Finance **Date.....**

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1.0 Executive Summary

The objective of Best Value is to ensure that effective management delivers better and more responsive public services. It is about departments

- Balancing the quality of service with cost
- Achieving sustainable development
- Being accountable and transparent, by engaging with the local community
- Ensuring equal opportunities
- Continuously improving the outcomes of the service they provide

To make progress in this, East Ayrshire Council must develop an improvement culture across all service areas.

The culture of Best Value places greater significance on public service and service delivery cost. The implications of this are profound for the way that the Authority organises itself and delivers its services. This Business Plan addresses some of the most pressing issues facing Scottish Authorities and therefore East Ayrshire at the present time.

This plan sets out to ensure Officers and elected members fully informed on the key policy objectives and the needs of the customers and communities, and be driven by a desire to achieve the highest possible standards in service delivery.

The department of Roads & Transportation are committed to carrying out a Best Value Service Review in the early part of 2006/07, as a result the annual action plans shall be drawn up from this review to ensure a joined up approach to service delivery across the Department.

2.0 INTRODUCTION

2.1 The Roads Contracts DLO is a Business unit within Development & Property Services Department. The management structure consists of a Business Manager reporting to the Head of Roads. The Head of Roads in-turn reports to the Executive Director of Development & Property Services and East Ayrshire Council's Development Committee. The unit aims to deliver a comprehensive range of high quality front line services through partnership with internal clients and to meet the Best Value criteria of its customers.

2.2 The Roads Contracts unit provides the following services:

- ❑ Maintenance of Carriageway and Footways
- ❑ New build of Carriageway and Footways
- ❑ Winter Maintenance
- ❑ Minor and major capital works.
- ❑ Planned maintenance and programmed works
- ❑ Surface Dressing
- ❑ Bridge Maintenance
- ❑ Road Lighting
- ❑ 24/7 Hour emergency response
- ❑ Routine Maintenance
- ❑ Storm, Flooding and other emergency relief
- ❑ Cyclic maintenance
- ❑ Traffic control and management
- ❑ Car Parking

The above services are provided from Gauchalland Depot, Galston and Underwood Depot, Cumnock. Car Park Services are based at the Foregate Multi-storey.

3.0 MISSION STATEMENT

3.1 Roads Contract Services is committed to delivering a commercially orientated, efficient and effective service, focused on quality, service delivery and overall customer satisfaction. Roads Contracts intends to maintain its service base, consolidate its position as the Council's main Civil Engineering contractor and continuously improve on every business front.

Following from this statement there are seven critical success factors.

- ❑ Accountability without undue bureaucracy.
- ❑ Awareness of shifting demands.
- ❑ Customer first attitudes through consultation with all stakeholders.
- ❑ Staff performance targets.
- ❑ Compliance to agreed standards.
- ❑ Assessment of costs and comparative efficiency of operations.
- ❑ Continuous improvement on all sectors of the business including financial out-turns, performance, cost reductions and methods of working.
- ❑ As a model employer, provide a good working environment for all employees, in line with East Ayrshire Council's Core Values.

4.0 BEST VALUE OBJECTIVES

4.1 Roads Contracts recognise the need to utilise its resources efficiently and effectively to meet the legitimate demands of Public Service.

4.2 The Scottish local government environment has changed significantly in recent years. The shift away from Compulsory Competitive Tendering (CCT) to Best Value has brought with it new opportunities for Direct Service Providers which if they are to be exploited require a commensurate change in culture.

The culture of Best Value places greater significance on public service and service delivery cost. The implications of this are profound for the way that the Authority organises itself and delivers its services. To this end, the Roads Division shall undertake a Best Value Service Review during the early part of 2006/07.

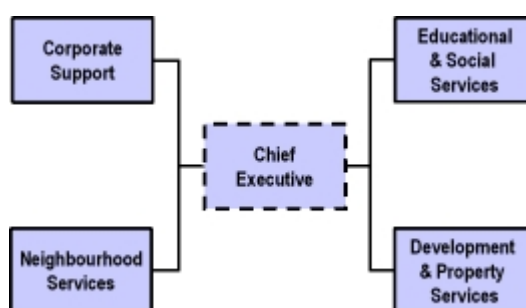
5.0 BEST VALUE ARRANGEMENTS

5.1 Commitment and Leadership

With 32 elected members and approximately 6,000 employees serving more than 120,000 residents, East Ayrshire Council has earned a reputation for providing services effectively and at a consistently high level.

Every department aims to deliver a quality service and all activities are carried out with the Council's core values of quality, equality, access and partnership in mind.

The Chief Executive as head of all services is supported by a Depute Chief Executive who is also a service director and by a further three service directors. Together they form the Council's Senior Staff Management Team. The following provides an outline of the Council's Departmental Management Structure.



The Development and Property Services Department has responsibility for the delivery of essential, high quality public services throughout East Ayrshire across the following 4 service areas:-

- Economical Development & Property Services
- Technical Services
- Planning, Development & Building Standards
- Roads & Transportation

Roads Contracts is a Business unit within Development & Property Services Department. The management structure consists of a Business Manager reporting to the Head of Roads & Transportation. (Appendix 1) The Head of Roads & Transportation in-turn reports to the Executive Director of Development & Property Services and East Ayrshire Council's Development Services Committee. The unit aims to deliver a comprehensive range of high quality front line services through partnership with internal clients and to meet the Best Value criteria of its customers.

Roads Contracts is committed to delivering a commercially aware Best Value Service, focused on quality, service delivery and overall customer satisfaction. Roads Contracts intends to maintain its service base, consolidate its position as the Council's main front line service provider and continuously improve on every business front.

5.2 Responsiveness and Consultation

Roads Contracts recognises its part in the Council Community Planning Strategy.

“East Ayrshire will be a place with strong vibrant communities where everyone has a good quality of life and access to opportunities, choices and high quality services which are sustainable, accessible and meet people’s needs”

The provision of the maintenance and capital contracts by Roads Contracts links directly to the core themes of the East Ayrshire Community Plan, these include,

Improving Opportunity, Eliminating Poverty, Improving Health, Building Sustainability

- The provision of local jobs that inject money in to the local economy
- The provision of training schemes
- Generation of income for the Council
- Sub-Contractor added value
- Power of Well Being
- Social Wellbeing through community safety, diversity, fairness and the “feel good factor”
- By developing a strategy that ensures a balance of social, economic and environmental objectives.

5.3 Sound Governance at a Strategic, Financial and Operational Level

The Finance Department's Accounting and Budgeting Section operates an outsourced structure and a section dedicated to Roads Department is located at Greenholm Street. Roads Contracts recognises the key role this section provides in supporting front line staff and management.

The Finance, Client and Business sections work closely together to produce and collate information from different sources on a weekly and four weekly basis.

Income and Expenditure is monitored on a four weekly basis under a variety of detailed headings, on a commitment accounting basis. A report is submitted to the Budget Scrutiny Group and Development Services Committee on a routine basis.

In addition the Finance Section produces a variety of detailed monitoring reports on a weekly and four weekly basis. This information is used to assist in the day to day running of the business.

Annual budgets and financial targets are set in partnership with Roads Contracts and Roads Operations, Transportation and Design and Financial Services.

Income is measured on the basis of charges to Clients, both revenue and capital. The profiled Income is measured against payment certificates issued and work in progress assessed.

Expenditure is measured against labour (both salaries and wages) materials, Sub-Contractors, plant and transport, Capital charges, and other direct expenditure. Overheads and administration charges are also monitored on a similar basis. At the same time the organisation also monitors a number of detailed performance tasks, identifies variances and reports and acts upon these.

Labour is analysed as a gross cost, and overtime and bonus as a percentage of basic wages and salaries.

Materials are analysed as a percentage of total costs, as are direct purchases.

Sub-Contractors are analysed as a percentage of labour costs, as is plant and transport and direct and capital overheads

5.3.1 Roads Contracts recognise the importance of comparative analysis and are committed to produce meaningful performance indicators. The use of external comparisons will ensure value for money and develop best practices across the service delivery.

5.4 Sound Management of Resources

- 5.4.1 Roads Contracts ensure that staff are valued and their skills and knowledge are used effectively and to the full.
- 5.4.2 Through the Risk Management working group Roads Contracts have developed a Risk Register detailing contingency plans should key systems fail.
- 5.4.3 Quarterly meetings are held between management and the workforce representatives to ensure a joined up approach to service delivery is maintained. A formal agenda ensures that the cascade of information and feedback to the workforce including strategic and operational objectives are effectively communicated.
- 5.4.4 Quarterly meetings are held between management and safety representatives. Health and safety issues and accident analysis provide information to develop Risk Control Systems and Risk Assessments. New plant, tool and material initiatives form part of the agenda.
- 5.4.5 East Ayrshire General Employee Review has been successfully rolled out to all staff within Roads Contracts. The rollout process was initiated at senior management level and has cascaded down, to ensure that each individual's development plans are in line with the business goals of Roads Contracts.

5.5 Use of Review and Option Appraisal

- 5.5.1 Best Value, and the subsequent legislative environment, demands the use of option appraisal to look across departmental boundaries and cross cutting issues in terms of service provision and community planning. This requires innovative thinking and changes in management culture.**
- 5.5.2 The development of an effective performance management culture requires input from both 'client' and 'contractor'. The statutory duty to seek continual improvement is in itself a powerful driver for change, requiring, as it does, close scrutiny of all aspects of a given function.
- 5.5.3 The Local Government in Scotland Act requires authorities to retain trading accounts for 'significant trading' activity. Trading activity is the provision of a function on a basis other than an internal recharge. Whether such activity is deemed 'significant' is for the authority to determine following guidance issued by Chartered Institute Public Financial Accountants (CIPFA).
- 5.5.4 Under the tests established by CIPFA local authorities have flexibility as to which services are deemed significant but it is likely that Roads Contracts will be deemed significant by East Ayrshire Council.
- 5.5.5 The purpose of trading accounts under the 2003 Act is significantly different than under CCT. Under competition trading accounts were used as instruments to give effect to the requirement to tender defined activities and complied with a relatively tightly defined format. Under Best Value, trading accounts, whether significant or established for internal management purposes, are intended to facilitate accountability and transparency, whilst also maintaining a business like approach to the delivery of functions. They will constitute a key element of the data used to establish whether or not a service is being provided competitively.
- 5.5.6 Advice from the Best Value Task Force emphasises the flexibility of the requirement and the opportunity it offers to organise services in the way that most effectively and efficiently contribute to the authority's strategic objectives.**

5.6 Competitiveness, Trading and Discharge of Council Functions

- 5.6.1 The Local Government in Scotland Act was enacted on the 1st April 2003. This legislation included guidance for trading under the provisions of three key areas, namely: Best Value, community planning and economic, social or environmental wellbeing
- 5.6.3 Roads Contracts is conscious of being publicly funded in everything it does; it has regard to obligations under state aid rules; and it is aware of the need to conduct its business in a manner which demonstrates appropriate competitive practice. Account is taken of the potential economic impact of the Councils activities on the local community and others. The requirement to keep trading accounts under proper accounting practice is observed where appropriate in order to provide a transparent audit trail.
- 5.6.4 The new the Act also encourages the council to examine possibilities such as power of well being and prudential borrowing. Whilst maintaining sound governance the council should think laterally about how to utilise the new flexibilities of the various components of the legislation to develop more fully an integrated approach to service provision.
- 5.6.5 The Well Being Power carries with it an express power to charge for the provision of services, albeit on a cost recovery basis. The power allows authorities to do anything that they consider is likely to promote or improve the well being of its area. This offers considerable scope for improving services for local people and identifying gaps left by private sector provision. It also potentially creates a mechanism for building economies of scale and sharing overheads between core services and new ones that can be provided on a cost recovery basis under the well being power.
- 5.6.6 In general the Well Being power will not be used to facilitate the Council setting up trading operations that are in direct competition with local business. This would be likely to contradict key Council priorities in terms of economic development and might also lead to complaints about unfair competition from affected business. However, the power could be used as the basis for providing services that are not adequately provided by the private /voluntary sector or which are provided in partnership with the private sector.

5.7 Sustainable Development

5.7.1 The duty of Best Value in Local Government in Scotland Act 2003 requires that “the local Authority shall discharge its duties under this section in a way which contributes to the achievement of sustainable development” and “development which secures a balance of social, economic and environmental well being impact of activities and decisions; and which seeks to meet the needs of the present without compromising the ability of future generations to meet their own needs”

5.7.2 Roads Contracts will take account of relevant environmental, social and economic impacts when specifying its requirements for goods, works and services, and will be making a contribution to sustainable development in the longer term.

5.7.3 When awarding contracts, Roads Contracts as the internal managing agent will comply with a number of requirements, notably EU procurement law (both Treaty and Directives) and the council Standing and Financial orders. Bringing Standing Orders into line with European Case law and the Local Government Act 2003 is a necessary step in improving contractual and procurement practices under Best Value and in ensuring that they can contribute to the achievement of sustainable development

5.7.4 The Procurement Directives require that contracts are awarded either on the basis of “lowest price” or “the most economically advantageous offer”. If the procurement decision is based simply on lowest initial price rather than setting a tender specification which takes other issues into account such as Training, Health and Safety and Effects on communities and local partners it is unlikely to be making a contribution to sustainable development in the longer term.

5.7.5 Waste Resources and Energy

Roads Contracts also recognise the opportunity to contribute towards the Councils Sustainable Development through the promotion of “green” initiatives such as

5.7.6 Energy Efficiency

Reducing energy use through energy efficiency measures and design measure
Reducing water use through water efficiency and design measures

5.7.7 Waste Transfer and Recycling

Waste transfer stations are being operated from Gauchalland and Underwood Depot. It is hoped that this facility can be extended to provide a service to neighbouring Authorities and private contractors. Further suitable recycling options will be appraised over the next year.

Taking measures to recycle or re-use waste or avoiding unnecessary resource use

Consider the environmental impact of purchasing decisions (buy locally to reduce transport miles, buying recycled materials)

5.8 Equal Opportunities Arrangements

- 5.8.1 Roads Contracts recognise the issue of staff retention and recruitment. A growing problem for the construction industry is an anticipated shortage of labour due to what is now three generations of lack of apprenticeship training since the late 1970s. Both the private sector industry and local authorities are openly debating their concerns about the lack of available labour within the marketplace.
- 5.8.2 Many private and public sector organisations are acknowledging the need to revisit staff retention and recruitment policies, by exploring other models of employment conditions and incentives to ensure retention of trade resources. One of which is the introduction of a salary based wage structure for manual employees linked heavily with innovative service and performance guarantees.
- 5.8.3 It is essential that East Ayrshire Council is not left behind and therefore the Division will continue explore all options for future staff retention by consulting with other organisations and Trade Unions over the duration of this plan. The Head of Personnel has been consulted on these issues and considers them to be in line with the general direction of the Council and has offered assistance to address further issues.
- 5.8.4 In taking account of the workforce issues that arise in procurement under best value, authorities will need to recognise the connection between service quality and handling of workforce issues. Good quality services depend on appropriately skilled and motivated workforces. Neglecting relevant workforce matters in order to drive down costs can have adverse effects on the desired quality and value for money of the service;
- 5.8.5 The necessity of achieving the appropriate balance between considerations of cost and quality. This will depend on the nature of the service to be provided and the requirements of the service users. It is unlikely that either a purely cost-driven or an unjustifiably expensive service will represent best value;
- 5.8.6 That a transparent, open and fair procurement process is essential to attracting bids that provide the optimum combination of whole-life cost and quality. All decisions should be based on objective measures that are justifiable in terms of the performance of the service specified under the contract. Authorities should therefore have clear procurement strategies, procedures and written policies for evaluating tenders;

5.9 Joint Working

5.9.1 The Division acknowledges a culture of collaboration and partnership working.

5.9.2 In conjunction with South Ayrshire Council a number public/public partnering arrangement has been set up. These include;

- The purchase of a JetPatcher unit. Prices are currently being sought to form a new partnership with North Ayrshire,
- The collaborative procurement of surface dressing material and plant.

5.9.3 As part of the NESI group, regular meetings are held between members to discuss operational and strategic developments.

5.9.4 East Ayrshire Council is a member of the West of Scotland Local Authority Weather Service (WOSLAWS) which has procured the new weather service provider contract in partnership with our 10 neighbouring authorities.

5.10 Accountability

- 5.10.1 Roads Contracts continues to develop a customer care attitude throughout its workforce. This has led to a more customer focused, flexible and diverse service which is attributable to greater staff involvement. Trust has been fostered through widespread consultation and involvement of staff in the decision process.
- 5.10.2 Roads Contracts recognise that ultimately their performance is measured by the end user, in most cases the public. The LGISA places customer satisfaction as one of the principles of Best Value.
- 5.10.3 These include Contract Compliance Audit reports, where supervisory staff complete a spot check on sites. Feedback information is recorded for internal statistics and passed to appropriate managers for consultation with workforce and response.

6.0 OVERVIEW OF PERFORMANCE IN PREVIOUS YEARS

6.1 Financial Performance

Previous years Business Plans were derived from the estimated income available to be earned from income sources noted in Section 9.2. Outturn surpluses have exceeded budget and have increased progressively each year from £5,000 in 1999/00 to a projected surplus of £40,000 in 2006/07. The budgeted and outturn figures from 2002/2003 to 2005/2006 of these years are shown in the table below

Table of Outturn Performance for Previous 4 Years

	Budget	Outturn	Variance Favourable Unfavourable	% Variance
2002 / 2003				
Gross Expenditure	4,200	4,757	557	12%
Gross Income	(4,230)	(4,784)	(554)	12%
Net (Surplus)	(30)	(27)	-(03)	-10%
2003 / 2004				
Gross Expenditure	4,372	7,142	2,770	39%
Gross Income	(4,402)	(7,252)	(2850)	39%
Net (Surplus)	(30)	(110)	(80)	267%
2004 / 2005				
Gross Expenditure	5,310	6,836	1,526	22%
Gross Income	(5,340)	(6,941)	(1601)	23%
Net (Surplus)	(30)	(105)	(75)	250%
Projected 2005 / 2006				
Gross Expenditure	5,346	6,943	1,597	23%
Gross Income	(5,386)	(7,003)	(1617)	23%

6.2 Managing Attendance at Work

- 6.2.1 Overall absence has remained consistently over 6% over the last three years. These include long and short term absences. This remains a priority to the success of the Business Unit.
- 6.2.2 The Absence figures for the year 2005 excluding long term sickness (5.01%) show a steady pattern of success in controlling absence within of Roads Contracts.
- 6.2.3 The approach to monitoring the absent employees has been one of consistency throughout, using a partnership approach with personnel and the employees direct line manager. This approach gives direct responsibility for the employee's welfare to the line manager and also may give more local and relative information known, regarding the employee which might aid in the absence process.
- 6.2.4 Over the last year we have used extensively the services of our occupational health and the physiotherapy service. These services have proven to be a huge bonus both to us the employer, in establishing monitoring systems and phasing return to work patterns, and also the employee in reassuring them that our process is one off support. The physiotherapy service was initially used mainly by our employees who are off sick, however more and more we use this service to help employees remain at work whilst using this service to support them.
- 6.2.5 Monthly reports are produced detailing reasons for absence, lost working days as a percentage of total available days and reported to the Development Services Committee at each cycle. Absence is monitored in consultation with the Trade Unions on a monthly basis through the JCC Group.

7.0 FINANCIAL FORECASTS FOR FUTURE YEARS

7.1 The tables 3A and 3B illustrate the financial projections for the next year, detailing income, expenditure and cash flow movement. It is the intention to plot these forecasts throughout the year measuring targeted performance against actual performance, period by period.

Table 3A

ROADS CONTRACTS		
Actuals		Annual Budget
2004-05		2006-07
£000		£000
	Income	
(6,941)	Charges to Clients	(6,210)
	Operating Expenditure	
	Labour	
762	Wages - Basic	862
442	- Overtime	299
406	- Bonus	472
263	- Empl'y'r Nat Ins- S.Ann	301
220	Salaries - Basic	240
96	- Overtime	67
63	- Empl'y'r Nat Ins- S.Ann	54
42	Other Employee Costs	35
2,294	Total Labour	2,330
	Materials	
	Stores Issues	
1,687	Direct Purchases	1,561
1,687	Total Materials	1,561
	Sub Contractors Capital	
1,403	Sub Contractors Revenue	840
1,403	Total Subcontractors	840
	Plant & Transport	
364	Direct Transport Costs	413
854	Contract Hire & Operating Leases	708
	Other Transport Costs	
1,218	Total Plant & Transport	1,121
27	Capital Charges	27
-	Other Direct Expenditure	-
6,629	Total Operating Expenditure	5,879
(312)	Operating Surplus	(331)
	Overheads	
52	Property Costs	40
38	Administration Costs	130
36	Departmental Overhead	35
126	Total Overheads	205
(186)	Operating Surplus after Internal Overheads	(126)
	Central Overheads	
81	Central Administration	86
(105)	Net Surplus	(40)

8.0 WORKLOAD FORECASTS FOR FUTURE YEARS

8.1 The workload forecasts for future years are based on the best determined estimates of future budget allocations. Any changes that need to be made to the figures will be identified, with appropriate action updated in any subsequent business plan. In broad terms, turnover is planned to employ the core full time workforce and is considered to be reasonable through historical experience.

Table 3B

ESTIMATED INCOME			
	2006/2007 £000	2007/2008 £000	2008/2009 £000
Revenue - Roads	2,508	2,300	
Revenue - Parking	111	118	
Revenue - Lighting	46	50	
Capital	2,445	1,500	
External	782	500	
Quality of Life	64	-	-
Better Neighbourhood	-	-	-
SE - CWS	112	120	
SE - 20 mph	142	105	
CRF Funds	-	100	
Total Estimate	6,210	4,793	-

8.2 Financial Assumptions

A Financial Operating Statement has now been prepared for the year 2006/2007. As with all such statements it contains a series of assumptions.

The main assumption on which the workload is based is detailed below. Any changes to these assumptions will be identified and updated during 4 weekly period monitoring.

At this stage Roads Contracts is budgeting for a net surplus of £40,000.

EAST AYRSHIRE COUNCIL	
ROADS CONTRACTS	
REVENUE ESTIMATES 2006/2007	
	Estimate 2006/07
<u>Income</u>	
Carriageways	1,213,570
Surface Dressing	291,930
Carriageway Patching	268,500
Footway	515,000
Footway Patching	68,500
Emergencies	125,000
Safety/Traffic Signs	154,400
Potholing	483,000
Ditches/Verge	155,000
Gullies/Drainage	454,000
Water Courses	10,000
Structures	35,500
Winter	780,000
EAC - Capital	716,500
Car Parks	111,300
External	782,105
Street Lighting	46,080
<u>Total Income</u>	6,210,385

8.3 Operating Environment

The Roads Contracts Unit operates mainly within an internal market environment and is heavily dependant on the Council's support in terms of workload to maintain the organisation. Although it is hoped that the new Local Government in Scotland Act will allow a wider scope for external trading, the Division will continue to remain dependent on available internal Council budgets to deliver the councils statutory functions. Opportunities however do exist to gain a stronger foothold in this internal market where the Unit retains its dominance due to its established infrastructure, local knowledge and its overall contribution to the Council's social and economic policies.

9.0 Procurement

- 9.1 Best Value is very much concerned with procurement practice. At its most basic the regime seeks to inform the so called make or buy decision through the use of robust and reliable performance management data.
- 9.2 It is important to understand that the legislative framework does not require any council function to be put out to competitive tender and imposes no restrictions on the amount of work that can be carried out internally.
- 9.3 The Authority's procurement strategy will be of key importance in demonstrating the basis on which procurement decisions are made. There should be no automatic assumption that external provision will automatically deliver Best Value benefits but equally there should be no presumption in favour of direct service delivery beyond a general statement of intent in relation to ensuring that directly delivered service will pursue continual improvement.
- 9.4 A strategy for using procurement as a tool of Best Value should be developed at a corporate level but it is also necessary to ensure that procurement decisions made at the service delivery level are consistent with the Council wide approach. The strategy needs to reflect the balance between quality and cost required to ensure Best Value for local people whilst remaining compliant with domestic and European legislation.
- 9.5 For Roads Contracts effective procurement of materials and services ('sub-contractors') is a key issue. The service needs to be in a position to negotiate the best possible deals on behalf of local people. The value of these contracts is likely to be above the threshold at which the European Procurement Regulations apply and therefore must comply with the requirements of those regulations as well as with domestic law and the Council's internal standing orders.
- 9.6 The legal framework is designed to promote competition and to ensure against discrimination in the tendering process. A key requirement is that all prospective contractors are treated equally and in most cases this rules out so called post tender negotiation. The result could be single supplier contracts with little flexibility. One possible answer to this, in relation to sub-contractors, could be to use the European procurement procedure to establish a list of pre-approved contractors engaged on a framework basis. These contractors would then engage in a mini-competition each time the Authority wished to draw down on the framework. The framework contract itself would be let through the European procedure on a four yearly basis. A similar approach could be used for materials although a balance would need to be struck between the potential discount a prospective supplier might offer for a preferred supplier arrangement as opposed to a multiple supplier framework arrangement.

10.0 STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS ANALYSIS

The Roads Contracts Unit's viability as a service provider is dependant upon many factors. Some of these factors are external influences, which act in the units favour and can be viewed as opportunities. Those that act against it can be seen as threats.

10.1 Strengths

The strengths possessed by the unit in order to maximise opportunities are as follows:

- Strong political and Corporate support,
- The unit has an enthusiastic, flexible and committed management and Trade Union, which is forward thinking,
- An experienced and highly skilled manual workforce, which is multi-disciplined,
- A good relationship with clients and the public which can be confirmed through requests for repeat work and letters received
- A proven record of quality, reflected in the low percentage of remedial work,
- A commitment to skills training and safe operations,
- Long standing excellent relationships with suppliers, consultants and sub contractors,
- Ability to provide a workforce in times of inclement weather, by virtue of its access to emergency works,
- A high level of emergency performance, substantiated by comments from other Council departments, the police, public and other clients.
- Labour, plant and depot assets, strategically placed throughout the Council area to provide a fast response,
- A workforce and management with good local knowledge flexible approach to hours.

10.2 Weaknesses

The following factors are perceived as weakness within the units mode of operation

- There is a high fixed cost of resources – plant, depots and offices,
- The timing of claims processing and subsequent cash flow could be improved

10.3 Opportunities

While the threats are external and the Unit has no direct control over them, it has inherent strengths that, correctly applied can turn such threats into opportunities

These opportunities are seen as follows:

- Further diversification of the type of work undertaken to possibly include such areas as site servicing, project management, demolition, plant and vehicle hire. Clients for this work include other local authorities, government agencies etc,
- Partnering with other Sections or Council Departments in order to maximise the availability of suitable work to the unit,
- Partnering with current and future suppliers to gain contract work,
- Further partnering with other contracting organisations to undertake project management and allied site works,
- Partnering with consultants, including the Council's in-house Professional Services to undertake Design and Build commissions,
- Breaking into specialist markets, in particular the various methods of re-cycling construction materials. This activity could also be carried out in partnering with suppliers,
- Servicing and construction activities within the private estate and development market,
- Increasing turnover of recycled materials.

10.4 Threats

The threats to the unit and its perceived weakness are shown below, together with an indication of how they can overcome by its strength and the opportunities that are open to it.

The following factors are outwith the control of the unit and are perceived as threats

- Diminishing Council revenue and capital funds,
- The uncertain attitude towards "In House Service" provision of the Scottish Parliament and the Local Government Act,
- The ongoing impact of single status and changes to working time regulations,
- The high price of locally supplied high value materials,
- Changes to working time regulations and drivers hours.

10.5 Business Planning Issues

10.5.1 Market Expansion

- There will need to be a continuation of more emphasis on the procurement of suitable labour intensive work,
- Broaden the area of potential work –continue to "sell" skills to other authorities etc.

10.5.2 Diversification

Diversifying the Unit's activities will result in the following impact on operations:

- There will be a need to resource the exploration of new markets,
- There will be a need to review the skills of current workforce and recruit or re-train where necessary,
- It may be necessary to acquire further new specialist plant and equipment

10.5.3 Partnering

Further Partnering will impact on the Unit by:

- Opening up more new markets,
- The need to negotiate work with suppliers/contractors/consultants,
- Possible changes to meet quality management systems.

10.5.4 Competitiveness

- Level of turnover needs to be sufficient to offset fixed costs,
- The Council rules and regulations which restrict competitiveness need to be examined,
- Fixed and variable costs need to be reviewed in line with budget and workload,
- The effect of single status and the working time directive on labour rates is being discussed with a view to achieving agreement on implementation of new terms and conditions including bonus incentive schemes.

10.5.6 Specialist Services

Recycling of construction materials will require

- A change in operating procedure with regard to the disposal of waste materials,
- Further market research into the sale of recycled material,
- Increased awareness within Council departments.

10.5.7 Financial Efficiency

Attempts to increase efficiency in financial monitoring will need:

- Flexible resource Management to focus on maximising budget efficiency,
- Implementation of a new management information system, and rationalisation

or changes as necessary,

- Review year end surplus and consider 3 year flexibility.

10.5.8 Rationalisation and Development

In the event that opportunities which, when exploited, do not yield additional man hours to maintain the required level of workforce, the Unit will need to consider:

- Changing the working practices of the organisation,
- Adjusting manpower and resources as required in line with budget and workload,

The major actions required to continue the Roads Contracts Unit success and retain an efficient and competitive workforce are:

- To carry out a service delivery review in conjunction with Roads Operations and Design & Transportation
- To continue to work in conjunction with other Local Authorities,
- To expand into new areas of activity in the construction market,
- To examine further the Partnering possibilities with other Local Authorities, Contractors, Developers and Suppliers to fill the future workload gap,
- To identify skill and resource deficiencies for such changes and to remedy them,
- To resolve the single status and working time directive problem,
- To help develop new materials and procurement options,
- To improve cost management, processing and cash flow,
- To continuously monitor manpower and staff structures to improve efficiency.

Where appropriate trade unions and other partners will be consulted.

11.0 TRADING UNDER BEST VALUE

11.1 The LGISA 2003 brings with it opportunities for providing services to a wider community. In particular the Well Being Power created by Part III of the Act and amendments to the Local Authorities (Goods and Services) Act 1970 under Part I, offer considerable scope for working in different ways. The Well Being Power essentially allows the Authority to do anything that will promote the Well Being of the Council's area whilst the amendments to the Goods and Services Act provide an express power to trade with other organisations both within and out with the public sector.

Three provisions in the Local Government in Scotland Act 2003 are directly relevant to the issue of trading by local Authorities whether such trading relates to internal or external arrangements. They are:

- 1) the duty to secure Best Value
- 2) the duty of Community Planning
- 3) the Power to advance well-being

The three measures are inter-connected. Together that creates a new legislative framework which gives the Council real flexibility to identify, organise and deliver the best service for their local communities. However, the ability to trade is not unfettered. Likely restrictions on the level of external work, in proportion to overall turnover that can be undertaken outside of the public sector are to be imposed by the Scottish Executive. An exemption within this framework is where trading is with another Local Authority where no restrictions apply and capacity can be developed for the purpose. It is this latter area of trading that offers the greatest scope but a careful examination of other opportunities should be undertaken.

11.2 Internal Trading

Roads Contracts seek to remove the barriers to innovation, and to develop a service provision to the Council within the legislative framework that secures best value. A joined up approach to delivering an in-house service to our local communities must be developed.

11.3 External Trading

Through the introduction of the Local Government in Scotland Act 2003 external trading is permitted to the following bodies.

- 1) other Local Authorities
- 2) public Authorities or bodies
- 3) persons providing goods or services to authorities
- 4) persons, whilst not being of a public body, has functions of as public nature.

Trading units must have clear, explicit reasons for work of this nature, which justify the associated balance of risks and rewards.

Legitimate reasons for Roads Contracts to undertake external trading include the following:

- 1) Make use of any surplus capacity
- 2) Shared gains to joint working through the community planning process
- 3) Contributes to the councils corporate goals

- 4) Power to advance well being
- 5) Provides contribution to local economy which contributes to sustainable development
- 6) Provides a degree of local market regulation

12.0 Benchmarking

- 12.1 In the public sector under the framework of CCT, price alone was the sole criteria for procuring contracts. At that time some DLO's were considered generally poor and inefficient. Currently standards of DLO's have significantly improved from these early days and with Best Value replacing CCT more consideration is being given to the in-house providers. Indeed the benchmarking criterion currently used is now demonstrating that Roads Contracts are as good as the private sector competitors in terms of reduced overheads and reduced unit costs.
- 12.2 There is however a risk to the organisation if pricing is used as the sole criteria for evaluating best value. Issues such as Health and Safety, Training, Council Policies, Wage Structure and National Trade Union Agreements are issues of which do not restrict private sector organisations as much as internal Service Providers.
- 12.3 Best Value requires authorities to seek continual improvement. It follows that mechanisms for measuring performance must be developed to provide the management information necessary to judge whether or not improvement is taking place. A key part of the business planning process is therefore the establishment of a set of carefully selected Performance Indicators. These indicators may be few in number but supplemented by SMART (specific, measurable, achievable, realistic, timeous) targets that will enable elected members and senior management to assess progress. In addition such systems feed directly into the new Audit of Best Value in Scotland, and concurrently directly support the drive towards Efficient Government. Both are key components of modern Local Government in Scotland.

13.0 CONCLUSIONS

- 13.1 Roads Contracts contributes significantly to the implementation of a range of Council policies. It is both competitive and innovative and also contributes its operating profit for use exclusively within the Council. There is therefore a strong case for retaining our service delivery within the Council.
- 13.2 In areas of deprivation the Council, through Roads Contracts Business Unit, directly implements Council policies, it is a significant employer in the community; providing secure employment with good remuneration, terms and conditions, opportunity, and training for personal and professional development. Through the unit as the in-house provider the Council is able to exert maximum impact and influence over its financial savings and improvement strategies and to pursue its Social and Economic Policy objectives within the Community. The Business Unit since its inception in 1998 has a significantly improved track record of consistently good operational financial performance. In addition the section can demonstrate competitiveness through current benchmarking arrangements.
- 13.3 Private Public Partnerships and Strategic Road Network Plans will remain a threat in the future. Therefore it is critical to keep abreast of any future financial implications. Any changes will form part of the annual Business Plan where any financial assumptions and future trends will be identified and updated. The Roads Contracts Section however; remains confident, that there is the will to source and retain core revenue income, to sustain the department's future growth, maintain the section's stability and to meet the future aspirations of the Council.
- 13.4 When exploring the options for best value, consideration was given to the Division's contribution to the social and economic policy objectives of the Council. In addition the Business Unit, since its inception in 1998 continually improved its track record of good consistent operational and financial performance. Entering into a long-term best value contract would provide financial stability for the Business Unit to make necessary investment commitments and also provide stability for client resources whilst ensuring value for money was being achieved. Through a best value contract, there must be a commitment to continuous financial and performance monitoring both internal and external.
- 13.5 The Business Plan sets out that efficiency gains are achieved as follows:-
- Reduced inputs (money, people, assets, etc) for same outputs;
 - Reduced prices (procurement, labour costs, etc) for same outputs;
 - Additional outputs or improved quality (extra service, productivity, etc) for same inputs;
 - Improved ratios of costs / output (unit costs etc.)
- 13.6 Clearly the first three of the above areas, which rely upon a 'reduced input', appear to be heavily dependent on reducing direct labour costs and increasing productivity. This will create unease amongst employers and trade unions alike. Where such costs are pre-determined by national collective bargaining, or have been reached by local revision to pay and grading structures, it is unlikely any major changes (even if desirable) could be achieved in the timescales prescribed by Government, which is that the first tranche of efficiencies need to be identified by April 2005.

13.8 Whatever efficiency gains are made must, according to the Efficiency Technical Notice (ETN) be measured in accordance with a number of key principles. The Government states these are:-

- Each council to identify and quantify the efficiency gains that have been attained in the sphere of operations;
- The system is flexible in terms of the activities that can be counted
- The approach is robust, simple and streamlined;
- It is helpful in terms of promoting good practice in driving improvement; and
- Any additional burdens on local authorities are reduced as far as possible.

13.9 What is not an Efficiency Gain?

The ETN makes a number of obvious points for example that re-labelling an activity such as inspection as advisory work would not represent an efficiency, poorer services / diminution in service quality, and transferring costs (presumably this relates to transfers across departmental budgets such as recharging central establishment costs) would not represent efficiency.

13.10 Within authorities it is imperative that the commercial skills that exist internally with in-house service managers and directors, who have consistently delivered efficiencies in both an internal and external competitive market, are recognised and utilised. Roads Contracts will need to draw upon those skills to develop and deliver a long term and sustainable response to the efficiency agenda.