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Date: 6 February 2020

Dear Sir/Madam

You are invited to the following meeting:

**Special Shetland Islands Council
Council Chamber, Town Hall, Lerwick
Thursday 13 February 2020 at 2pm**

Apologies for absence should be notified to Leisel Malcolmson at the above number.

Yours faithfully

Executive Manager – Governance and Law

Convener: Malcolm Bell
Depute Convener: Cecil Smith

AGENDA

- (a) Hold circular calling the meeting as read.
- (b) Apologies for absence, if any.
- (c) Declarations of Interest - Members are asked to consider whether they have an interest to declare in relation to any item on the agenda for this meeting. Any Member making a declaration of interest should indicate whether it is a financial or non-financial interest and include some information on the nature of the interest. Advice may be sought from Officers prior to the meeting taking place.

Items

1. Public, School and Adult Social Care Bus Transport – Full Business Case
DV-05

The following item contains *EXEMPT* information

2. Inter-Island Air Services Full Business Case
DV-06



Meeting(s):	Shetland Islands Council	13 February 2020
Report Title:	Public, School and Adult Social Care Bus Transport – Full Business Case	
Reference Number:	DV-05-20-F	
Author / Job Title:	Michael Craigie – Lead Officer	

1.0 Decisions / Action Required:

1.1 That the Council **RESOLVES** to: -

- 1.1.1 **APPROVE** the award of contracts for school and adult social care transport to deliver Option 3 (Optimised Network: August 2020 Introduction) in line with the conclusions of the Full Business Case attached as Appendix 1 to this report.
- 1.1.2 **APPROVE** provision of finance to ZetTrans for the award of contracts for public bus transport to deliver Option 3 in line with the conclusions of the Full Business Case attached as Appendix 1 to this report.

2.0 High Level Summary:

- 2.1 Shetland Islands Council and ZetTrans have collaborated on the Business Case for a network of Public, School and Adult Social Care Transport services in order to maximise the opportunities for integration and efficiencies across services with the aim of keeping overall contract costs as low as possible whilst complying with the duties of both the Council and ZetTrans.
- 2.2 The Business Case process has been undertaken by the Council's Transport Planning Service with technical support and independent ratification by consultants Peter Brett Associates (now Stantec). Input from a range of organisational and community stakeholders has been sought throughout the process, and the Full Business Case is now complete and attached as Appendix 1 to this report.
- 2.3 This report provides the Council with the conclusion of the Business Case for Public, School and Adult Social Care Transport and seeks the Council's approval to award contracts for school and ASC transport and fund contracts for Public Bus Transport in line with that conclusion.
- 2.4 The Full Business Case provides the financial and management framework for implementation of public, school and ASC bus transport services following the conclusion of the procurement exercise detailed in the FBC.

2.5	<p>The FBC concludes that the preferred option provides the best Value for Money solution within the objectives of the process including the financial target set in the Council's Service Redesign Programme. The preferred option is:</p> <ul style="list-style-type: none"> (a) For Public Bus Transport – a network of services based on the current network optimised to take advantage of opportunities for efficiency and improvements (identified through analysis of usage data and community consultation). (b) For School Bus Transport – a network of dedicated services and public transport based services that provides transport to entitled pupils in compliance with the Council's prevailing policy criteria described in the Council's School Transport Policy. (c) For Adult Social Care Transport – a range of services to meet entitlement for client travel requirements based on an assessment of need grounded in social care legislation.
2.6	<p>It is important that the award of contracts be approved and carried out immediately to provide a sufficient lead in time for operators to ensure service implementation in August 2020.</p>
3.0 Corporate Priorities and Joint Working:	
3.1	<p>The Council's Corporate Plan states as one of its five top political priorities, "Provide quality transport services within Shetland, and push for improvements in services to and from Shetland" (Our Plan – 2016 – 2020).</p>
3.2	<p>The Council works closely with ZetTrans, as the main partner, to deliver its transport priorities along with NHS Shetland and Highlands and Islands Enterprise.</p>
4.0 Key Issues:	
4.1	<p>The current contracts for the network of School and Public Bus Services expire on 16 August 2020. In order to ensure continuity of services it is necessary to have in place new contracts from 17 August 2020.</p>
4.2	<p>ZetTrans has the functional responsibility to secure provision of public transport under the Transport Act 1985 and the Transfer of Functions to the Shetland Transport Partnership Order 2006, and Shetland Islands Council has functional responsibility to secure provision of school and Adult Social Care Transport in line with relevant legislation. Transport is referred to in a range of community planning policy and strategy contexts in Shetland, along with the Shetland Transport Strategy, which collectively describe what is required of Shetland's public transport network.</p>
4.3	<p>Using the Treasury '5-Case Model' and supplementary guidance, which the Council has adopted, a Strategic Outline Case (SOC) was developed and presented to ZetTrans in July 2019 (Min Ref 19/19). This highlighted the legislative and policy framework for the provision of Public, School and Adult Social Care Transport and identified a short list of options including a Preferred Way Forward for further appraisal in an Outline Business Case (OBC).</p>
4.4	<p>An OBC with supplementary Technical Summary was undertaken to provide a socio-economic appraisal of the short list of options. It established a Preferred Option consisting of a network of Public, School and Adult Social Care transport</p>

services broadly similar to the current network, optimised to take advantage of opportunities for efficiencies and improvements.

- 4.5 A Do Minimum option, based on financial modelling and the Service Redesign Programme financial target to save £500K across the scope of the Business Case, was retained to provide a mechanism by which choices on the final network would be considered in relation to Council and ZetTrans' views on financial priorities relative to impacts of service changes. The OBC was considered by ZetTrans (Min Ref 29/19) and Shetland Islands Council on 6 November 2019 (Min Ref 60/19) and approval was given to tender the Preferred Option to enable the FBC to be undertaken.
- 4.6 The procurement exercise resulted in individual and packaged contracts for the Optimised Network option totalling £4.8 million annually, which is £473,040 less than the current target budget for 2020/21. 298 individual contract bids were received across the public and school services tendered (1.77 bids per average for each contract and 1.98 bids per average for public bus contracts). A good spread of contract awards, to a range of large and small operators, will reduce the risks of less competition or monopolies occurring in the future. The average proposed contract award is 8 contracts per operator, with the largest award to a single operator of 20 contracts valued at £1,064m pa.
- 4.7 The tender results are provided in Table 4-1 on page 10 of the FBC in Appendix 1. These represent gross costs, i.e. they do not take account of any fare income. This is a proper approach where future services are 'like-for-like' compared to current services. However, the Service 6 (South Mainland/ Sumburgh) and the Service 1 (Town Service) have been significantly enhanced and it is almost certain that this will lead to increased passenger use and therefore increased income that should be taken into account when calculating the overall level of savings.
- 4.8 The Service 6 (Lerwick to Sumburgh) will see an earlier start to enable workers to get to Sumburgh Airport and the number of connections to/from the airport southbound will increase from 7 to 13 and northbound will increase from 7 to 14.
- 4.9 The Service 1 (Lerwick Town Service) has been modified to provide a more comprehensive and frequent set of connections around Lerwick, most notably 9 connections to the college over the length of the college day.
- 4.10 On the Service 1 passenger figures were 72,000 at peak usage (2016/17) and in the last complete year of data (2018/19) had fallen to 58,000. It can reasonably be expected that with service improvements much, if not all, of this drop can be recovered. A cautious estimate based around a short term recovery of 75% of the drop gives 10,500 additional journeys per year yielding additional income of £12,600 at current fare levels.
- 4.11 A precise estimate of increased passenger travel is difficult on the Service 6 due to a lack of comparable passenger use for such a significant service enhancement. However, the public engagement highlighted significant suppressed demand in terms of travel to the airport and with a doubling in the number of connections to and from the airport each day a significant increase in usage can be expected. There are currently around 115,000 passenger journeys on the Service 6 each year of which approx. 10,000 are to/from Sumburgh Airport. It is reasonable to expect a significant increase in journeys to 2,500 additional return trips leading to an increase in income of £14,500 at current fares.

4.12	Over the course of 2020/21, ZetTrans will be working on improvements to travel information, travel planning capability and active and sustainable travel initiatives, which will lead to increased use of public transport. The aim of this work will be to increase public transport use by 5% by the end of financial year 2021/22 which will yield of the order of £18,000 in additional fare revenue.
4.13	This gives a total estimate of additional revenue of the order of £45,000 per annum, providing overall savings of £516,094 annually in comparison with the current target budget for 2020/21.
4.14	Furthermore, officials are in dialogue with Loganair and HIAL on opportunities for further funding support from each of the organisations reflecting the benefits each receives through the enhanced Sumburgh service that arises from ZetTrans/ Shetland Islands Council's investment.
4.15	The combination of the outcome of the tender process and the conservative estimates of increased income confirm that the critical success factors, business needs, investment objectives and financial targets set in the Business Case are all fully met (and indeed exceeded).
4.16	It is therefore recommended that contracts are progressed in accordance with the preferred way forward noted in Appendix 1 to this report.
5.0 Exempt and/or Confidential Information:	
5.1	None.
6.0 Implications :	
6.1 Service Users, Patients and Communities:	Over the course of the Business Case process, through various means service users, communities and stakeholders have been involved in establishing the needs to be addressed in the development of the public, school and adult social care bus transport networks.
6.2 Human Resources and Organisational Development:	In order to successfully undertake the work related to information development/ provision, promotional material and activity, product development, etc., there is a need to increase a current part time post in the Transport Planning Service to a full time post. The post description and grade will remain unchanged so there are no additional financial implications beyond increased hours. The costs are covered within proposed Transport Planning budgets. The existing part time post is vacant so there are no impacts on current staff.
6.3 Equality, Diversity and Human Rights:	The recommendations of this report do not lead to any change in entitlement to school or adult social care transport. Therefore, there is no relative change to Equality, Diversity and Human Rights issues and no need to undertake an Equalities Impact Assessment.

	As part of the continued development of services officers will work to ensure all duties are met and opportunity is sought to make improvements to accessibility of public transport.
6.4 Legal:	<p>A legally compliant European Union procurement exercise was carried out and a Framework Agreement entered into with a number of successful service providers. Contracts for specific services shall be concluded in accordance with the procedures specified in the Framework Agreement.</p> <p>The provision of School Transport is subject to the duties under Section 51 of the Education (Scotland) Act 1980, as amended, requires the Council to make such arrangements as they consider necessary for the provision of school transport and transport facilities on such terms and conditions as may be arranged, and to pay all or part of reasonable travelling expenses for school pupils residing in their area and attending designated schools. Section 42(4) of the 1980 Act defines the statutory walking distance for school pupils as being 2 miles for any pupil under the age of 8 years of age and 3 miles for any other pupil.</p> <p>The appraisal and decision making associated with the Public Transport network is subject to compliance with the duties under the Transport Act 1685 and the Shetland under the Transfer of Functions to the Shetland Transport Partnership Order 2006.</p>
6.5 Finance:	<p>The proposed network of services which will collectively deliver the public, school and adult social care transport across Shetland, meeting the duties and responsibilities of Shetland Islands Council and ZetTrans, has a total tendered cost of £4.8m, which produces a saving against the established 2020/21 budget target of £473k per annum.</p> <p>Additional income in respect of service enhancements, and promotions is expected to yield further savings, bringing the total reduction in the cost of these services to more than £500k.</p> <p>The proposed increase in staffing resource within the Transport Planning Service necessary to fully ensure compliance with all conditions of contract, observe and regulate all services across Shetland is £21.5k per annum. This cost has been included in the budget estimates for 2020/21 and the service will still yield a net saving against target budgets.</p> <p>As the primary funder, this project will contribute to the Council's Service Redesign Programme in line with the requirements of its Medium Term Financial Plan, and long term savings target.</p>
6.6 Assets and Property:	There are no Assets and Property issues arising immediately out of this report.

6.7 ICT and New Technologies:	There are no ICT or New Technologies arising immediately out of this report.	
6.8 Environmental:	<p>The overall public, School and Adult Social Care transport networks are broadly similar to the current network, therefore the net impacts in terms of transport emissions is negligible.</p> <p>Over the course of 2020/21 officers will be developing active and sustainable travel policies as well as researching measures to decarbonise transport in Shetland. Reports on these initiatives will be reported to the Council and ZetTrans as progress is made.</p>	
6.9 Risk Management:	<p>Shetland's public, school and adult social care bus transport networks are important to the social and economic wellbeing of Shetland. Failure to conduct a thorough Business Case approach to support the making of decisions on the future network of services would undermine the capacity of the Council and ZetTrans to make informed investment decisions that can be shown to be based on policy aims and objectives. This could lead to unintended or unexpected consequences in terms of effective delivery of community planning objectives and outcomes. Furthermore, the Business Case approach will mitigate risk of unsustainable financial consequences that may arise out of inadequate account being taken of Shetland Islands Council's financial position and priorities.</p>	
6.10 Policy and Delegated Authority:	<p>ZetTrans has functional responsibility to secure transport services in Shetland under the Transfer of Functions to the Shetland Transport Partnership Order 2006.</p> <p>The Council has reserved authority for the determination of matters of new, or variation to, strategic policy as set out in Section 2.1.3 (3) of the Council's Scheme of Administration and Delegations.</p>	
6.11 Previously Considered by:	<p>Shetland Islands Council (Min Ref 60/19)</p> <p>Shetland Islands Council (Min Ref 48/19)</p>	<p>6 November 2019</p> <p>3 July 2019</p>

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Date Cleared: 5 February 2020

Appendices:

Appendix 1 – Public Bus School and Social Care Transport Business Case Full Business Case

Background Documents:

[Public, School and Adult Social Care Bus Transport – Outline Business Case](#)

[Public, School and Adult Social Care Bus Transport – Strategic Outline Case](#)

[Public Bus, School and Adult Social Care Transport Business Case Project Initiation Document](#)

[Shetland Partnership Plan 2018-2028](#)

[Shetland Transport Strategy 2008](#)

[Shetland Transport Strategy Refresh 2018-2028](#)



Public Bus, School and Adult Social Care Transport Business Case

Full Business Case

On behalf of **Shetland Islands Council**



Project Ref: 45602/5503 | Rev: AA | Date: January 2020

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Document Control Sheet

Project Name: Public Bus, School and Adult Social Care Transport Business Case

Project Ref: 45602/5503

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Date: 28/01/2020

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Prepared by:	Alastair Mackie	Associate		28/01/2020
Reviewed by:	Bob Pinkett	Director		28/01/2020
Approved by:	Bob Pinkett	Director		28/01/2020
For and on behalf of Stantec UK Limited				

Revision	Date	Description	Prepared	Reviewed	Approved
1	10/01/2020	Revisions following feedback from client	AM	BP	BP

This report has been prepared by Stantec UK Limited ('Stantec') on behalf of its client to whom this report is addressed ('Client') in connection with the project described in this report and takes into account the Client's particular instructions and requirements. This report was prepared in accordance with the professional services appointment under which Stantec was appointed by its Client. This report is not intended for and should not be relied on by any third party (i.e. parties other than the Client). Stantec accepts no duty or responsibility (including in negligence) to any party other than the Client and disclaims all liability of any nature whatsoever to any such party in respect of this report.

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Appendices

Appendix A	Updated Project Plan
Appendix B	Risk Register

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1 Introduction

1.1 Purpose of the Business Case

- 1.1.1 This Full Business Case (FBC) is the third and final element in the development of the Shetland Islands Council's (SIC) and ZetTrans 'Public Bus, School and Adult Social Care Transport Business Case'. Following the identification and testing of strategic options ZetTrans and the Council have subsequently tendered the next generation of public, school and adult social care transport networks to operate after the current contracts expire in August 2020, subject to approval of this FBC.
- 1.1.2 The Full Business Case has been prepared using the HM Treasury Five Case Model, which is the standard adopted by Shetland Islands Council for the preparation of Business Cases. The FBC assesses and updates each of the 'Five Cases', covering the strategic case, the economic case, the commercial case, the financial case and the management case, by building on the work undertaken earlier on the Strategic Outline Case (SOC) and Outline Business Case (OBC).
- 1.1.3 Because an SOC and OBC have been completed this FBC review will primarily focus on the key matters of project funding, procurement and delivery, as the strategic and economic objectives were agreed earlier in the business case process. Where necessary we update matters considered in the initial two cases and comment on any changes that will have a material impact on achieving the overall project objectives.

1.2 Scope

- 1.2.1 The service scope includes:
- Public local bus services
 - School transport services (excluding air and ferry service for pupils) – buses and taxis
 - Social care transport services – buses and taxis
- 1.2.2 Transport services which are excluded from this review include:
- Air and ferry services (as they are part of separate reviews)
 - Tourist coach services and charters
 - National Health Service non-emergency patient transport and ambulance services
- 1.2.3 Opportunities for synergies and integration with transport systems not in scope have been considered at a strategic level throughout the business case development process.
- 1.2.4 The geographical scope for the project is all of the 16 inhabited Shetland islands:
- Mainland, Yell, Unst, Fetlar, Whalsay, Housay, Bruray, Bressay, Fair Isle, Foula, West Burra, East Burra, Trondra, Muckle Roe, Papa Stour, Vaila

1.3 Context

- 1.3.1 Research undertaken by Shetland Islands Council (SIC) and ZetTrans staff in advance of the business case work identified the current and future operational and funding issues to be addressed, which were fully considered in the SOC and OBC.

- 1.3.2 The Council also continues to be engaged in a wider Service Redesign Programme across all directorates and service areas, and this project business case is therefore seen as part of the ongoing Council review programme.
- 1.3.3 A SIC Project Board and Project Team structure for the transport business case has been established and details of its role, both in the Business Case process and after project completion, is set out in the review of the management case in chapter 4 below.
- 1.3.4 Stantec has been appointed to provide independent technical support, analysis and critical review to the Project Team.

1.4 Structure and Content

- 1.4.1 This FBC has been prepared using the agreed standards and format for business cases.
- 1.4.2 The approved format is the HM Treasury Five Case Model, which comprises the following key components:
 - The strategic case. This sets out the strategic context and the case for change, together with the supporting investment objectives for the scheme
 - The economic case. This demonstrates that the organisation has selected a preferred way forward, which best meets the existing and future needs of the service and is likely to optimise value for money (VFM)
 - The commercial case. This outlines what any potential deal might look like
 - The financial case. This highlights likely funding and affordability issues and the potential balance sheet treatment of the scheme
 - The management case. This demonstrates that the scheme is achievable and can be delivered successfully in accordance with accepted best practice.
- 1.4.3 The HM Treasury “Guide to Developing the Project Business Case” (2018) has been used as template for the contents of this Full Business Case.

2 Review of Strategic and Economic Cases

2.1 Revisit the 'Case for Change'

- 2.1.1 It is important to regularly review the fundamental rationale for undertaking the project, which is the procurement of local transport services to meet the travel needs of individuals and communities in the Shetland Islands.
- 2.1.2 In the SOC and OBC we confirmed that the project aligned with the strategic objectives of national and local government, assessed against current legislation and policies.
- 2.1.3 There has been no revisions or updates to these policies, however the Transport (Scotland) Act 2019 now makes it a statutory requirement for Scottish Ministers to develop and publish a national transport strategy for Scotland. The previous National Transport Strategy (2006) was reviewed by Transport Scotland and a new draft Strategy has been consulted upon concurrently within the timeframe of the development of this business case. From the National Transport Strategy documents published to date it confirms that the actions taken by SIC and ZetTrans in procuring local transport services will continue to be consistent with the Scottish Government's strategic travel objectives. The new Transport Strategy was published on 4th February 2020.
- 2.1.4 No additional strategic business needs have emerged during the SOC and OBC stages that need to be taken into account, for example national or local changes to concessionary travel, revised rules on school travel entitlement or social care client mobility requirements.

2.2 Revisit the OBC Options

- 2.2.1 In the SOC and OBC a rationale was developed for sifting and assessing the project options, from a long list of various service approaches – with scope ranging from status quo, to 'do less', 'do minimum', intermediate and finally 'do maximum'. These were tested against the agreed investment objectives, business needs and critical success factors, which are reviewed below:

Investment Objectives

- 2.2.2 The service options were developed in the context of a set of five Investment Objectives:
- Investment Objective 1: Ensuring that ZetTrans meets its statutory duty to secure a fit for purpose network of public bus transport services (that takes account of local and national strategic aspirations) and that Shetland Islands Council meets its statutory duty to provide school and social care transport to enable access to services
 - Investment Objective 2: Ensuring the continuity of public, school and social care transport services from 20th August 2020
 - Investment Objective 3: Ensuring that the public, school and social care transport networks contribute to delivering the outcomes of the Shetland Partnership Plan
 - Investment Objective 4: Reducing annual expenditure through the 2019/2020 procurement process
 - Investment Objective 5: Meeting Investment Objective 1 in line with the financial objectives of Shetland Islands Council established by the Service Redesign Programme
- 2.2.3 There have been no changes proposed or adopted for the Investment Objectives and therefore they are applied to this consideration of the FBC.

Business Needs

- 2.2.4 The development of a business case is dependent on understanding the current situation and how the investment objectives will impact on the identified issues and concerns (the business needs) – specifically what is the current service gap that undertaking the project will resolve.
- 2.2.5 In the OBC we agreed the Business Needs:
- The prime business need is to continuing to fulfil the Shetland Islands Council and ZetTrans transport duties and responsibilities - compliance.
 - The secondary business need is to procure efficient and effective contracts for operation from 2020, to ensure continued service and therefore no challenges to the Council or ZetTrans on their statutory duties - replacement.
 - A clear third business need is designing an improved network that meets identified unmet demands while maintaining services at a similar quality standard for existing users - effectiveness.
 - Although it is an important business need to reduce the unit costs of operation to secure 'more for less' the industry trends may impact on this drive to manage and use resources better, needing intervention to address these countervailing movements in costs and delivery – efficiency.
 - The fifth and final business need is to address the financial pressures facing the Council in the funding of transport services and look for innovation or new contracting models to reduce input costs – economy.
- 2.2.6 As part of the FBC process we have reviewed the Business Needs and they are still valid, as there has been no change to the underlying fundamentals of the ZetTrans and SIC service requirements and their approach to delivering local transport services.

Critical Success Factors

- 2.2.7 Identifying the Critical Success Factors (CSFs) was essential in assessing the long list of options to achieve the short list. In our review of the agreed CSFs for the FBC we believe that the CSFs are still relevant and therefore there is no need to further revise or update them. This is important in not only informing this stage of project development and implementation, but for consistency in the required post project reviews.
- 2.2.8 The unchanged CSFs are therefore as follows:

Table 2-1 Critical Success Factors

CSF Classification	Critical Success Factors
Strategic fit and business needs	CSF1: The school, social care and public transport service meets Shetland Transport Strategy Objectives 1 and 2, and contributes to Objective 3.

	CSF2: The school, social care and public transport service fits with a stakeholder approved hierarchy of transport need and contributes to raising the Place Standard Score for transport and achieving Shetland Partnership Plan outcomes.
	CSF3: The project aligns with the requirements of the SIC Service Redesign Programme
Potential value for money	CSF4: A new fit for purpose public, school and social care transport service can be operational by August 2020.
	CSF5: The school, social care and public transport network provides the best value for money while meeting Council revenue budget objectives.
Supplier capacity and capability	CSF6: The levels of transport service proposed are deliverable within the scale/capabilities of local service providers, particularly in relation to driver availability and business capacity, bearing in mind the limited ability of Shetland Islands Council to operate significantly more services in-house.
	CSF7: The project stimulates competition in the market to achieve cost reductions through the procurement process.
Potential affordability	CSF8: The project creates the ability to generate a choice of costed network options to ensure decision makers can make informed choices in relation to available funding.
	CSF9: The project reflects and responds to the pressures of continued public sector funding constraints.
Potential achievability	CSF10: The project can be delivered by existing Shetland Islands staff and resources within Transport Planning, Children's Services, Health and Social Care, Financial, Procurement and Legal services.

2.3 Options - Long List to Short List

2.3.1 The SOC identified a preferred way forward in the form of a range of tendered service options, which underwent appraisal for cost, benefits and risk in the OBC.

2.3.2 The following options were appraised:

- Preferred way forward: the current network adjusted for efficiency gains at the margins
- Do Minimum: the Preferred Way Forward with removal of discretionary home to school transport and reductions in the public bus network estimated to save circa £500k
- Less Ambitious PWF 1: the Preferred Way Forward with implementation delayed by one year
- Less Ambitious PWF 2: the Preferred Way Forward augmented by phased introduction of enhancements to fill gaps
- More Ambitious PWF: the Preferred Way Forward augmented by immediate introduction of enhancements to fill gaps

2.3.3 Two significant changes were made in the OBC to the service scope options:

- Do Minimum – This option was amended to incorporate a series of service reductions that were estimated to deliver annual savings of circa £500k. This option is referred to as 'Network Reduction'.
- Status Quo – A detailed network review identified a small number of revisions to optimise the network at the margins. This option is referred to as 'Network Optimisation'.

2.3.4 These service level options formed the basis for the service specification issued to suppliers in the tenders (November 2019). The outcome of the procurement exercise is considered in the financial case review in Chapter 4 below.

3 Review Procurement, Governance and Risk

3.1 Introduction

- 3.1.1 As part of the FBC commercial and management cases it is essential that the procurement and governance processes are reviewed to understand whether they are consistent with the approach agreed in the SOC and OBC, and whether they have been 'fit for purpose'. In addition, it is best practice in project development to regularly update the risk register, as new information becomes available and more certainty on potential project outcomes is achieved.

3.2 Commercial case - procurement

- 3.2.1 It was identified in the OBC that the procurement of 5-year local transport service contracts would be undertaken through the existing agreed supplier's Framework (2018) and therefore the tendering was significantly 'de-risked' as it is a system well understood by both suppliers and council officers.
- 3.2.2 The procurement was equitable to all existing suppliers and potential market entrants, and the results demonstrate that the method of securing interest in operating contracts has not diminished competition or nor impacted negatively on pricing. As such it can be confirmed that the procurement was undertaken in line with best practice and achieved the objectives identified in the early stages of the business case.

3.3 Management case - governance

- 3.3.1 The governance of the project was agreed at the outset with reporting lines established through the Project Board to Shetland Islands Council and ZetTrans. The responsibilities were agreed at the Project inception (and were unchanged at the OBC stage).
- 3.3.2 Apart from staffing changes the Project Board has offered continuity in providing regular project review. It is noted that there has been some difficulty in achieving full attendance at every meeting from all senior officers involved, however the Project Board provided an effective oversight role and engaged on key decisions. As the project moves to implementation it will become more relevant to client officers and their teams that require transport support. The Project Board will also have a key role in post project review.
- 3.3.3 The Project Board and the Senior Responsible Officer (Director of Development for SIC services and Lead Officer ZetTrans for Public Transport) specifically have a duty which relates to demonstrating the 'benefits realisation' of the Project. The officers will review the costs and benefits identified in the business case process, including the operational, financial and social impacts that will be achieved through the adoption of the preferred option. It will be within the first 6 months of the new contract operation that the benefits should begin to develop and after 12 months be fully identified and reported, as part of both the regular ZetTrans service monitoring and the specific review required by the business case approach. It is also expected that the Service Redesign Programme lead will require reporting of project outcomes.
- 3.3.4 The Post Project Evaluation also requires an appraisal of the business case process, in its application to this type of revenue funded service (as opposed to a capital project, for example), to determine whether it has added value to the review of the services and any lessons learnt. These should include the evaluation of the design, management and implementation of the Project utilising the Treasury Business Case framework.
- 3.3.5 An updated Project Plan is attached in Appendix A which sets out the timeline for the award of contracts, contract start and finish dates, next retender period, as well as key governance requirements and post project evaluation.

3.4 Risk

- 3.4.1 Following the initial review of business and service risks associated with the design of this project, which was undertaken as part of the SOC, a draft risk register was prepared for the OBC. This has been subsequently reviewed and updated, and is included in Appendix B.
- 3.4.2 Note that only the risks for the Preferred Way Forward, Option 3 - Optimised Network: 2020 Introduction have been updated, as this is the recommended contract package.
- 3.4.3 This process establishes how risk will be managed and mitigated prior, during and post implementation of the project. As noted previously the key risks were/are:

Business Risks

- Lack of stakeholder engagement
- Clarity on political view on service reductions if necessary
- Lack of organisational experience in business case development
- Availability and commitment of internal resources:
 - Project Team
 - Transport Planning, Children's Services, Health and Social Care
 - Legal and Procurement
 - Project Board
 - Senior management time to be involved

Service Risks

- Suppliers – Are suppliers in a position be more competitive through efficiency?
- Specification – there is a tension between the expressed needs from users, policy, other agencies and financial constraints
- Timescale – sufficient lead in time is required to allow operators to secure the required vehicles
- Change management and project management - Community Planning and Locality Planning in transition and not yet mature

External Risks

- Wider risks may arise through political uncertainty, consequent economic pressures, impact on oil and gas industry, climate change
- 3.4.4 Mitigation of these risks is a continuous process throughout the development of the business case and following project implementation will need to continue for the term of the new contracts.
- 3.4.5 The FBC stage allows the project sponsor to assess emerging risks as the project moves from modelling of potential outcomes to formal tendering and assessment of 'real world' outcomes. Having undertaken the modelling of potential outcomes and procurement of services we see

the potential ongoing risks for the 'preferred way forward' option as the consequences of the following changes:

- Service variations, loss – impacts on users, changes in travel behaviour, increased car use
- Change management – including consultation where services are reduced or revised, providing timely and useful information
- Operators - loss or gain of contracts – impact on market dynamics, short and long term risks – for example contract not accepted/commenced, business failures, contingency planning required with Council potentially having to intervene as 'operator of last resort'
- Wider impacts on travel and mobility in Shetland Islands – the potential unforeseen consequences, on economy, employment, education, social exclusion, community, health, wellbeing
- Community and political feedback – negative or positive

3.4.6 However, none of these risks have become worse since the OBC and because of the reduction in overall tender costs in almost all cases the risks are effectively further reduced from the low risk score of 1 from the previous risk register.

3.4.7 These risks have been reviewed in the updated Risk Register, which takes into account the outcomes of the tendering process, as considered in the following chapter.

4 The Financial Case

4.1 Introduction

- 4.1.1 For the financial case to be effectively assessed it is important to understand the base line costs of the service as currently operated and the new costs following the implementation of the project (the retender of local transport contracts). The tenders should be assed to determine the 'most economically advantageous offer' and that the option is the best public value.
- 4.1.2 These then can be set against the budgets available to fund the project, to assess affordability and whether to proceed with the new service provision. The current annual budget of the transport network is £5.26m net, made up of:
- Public Transport Services £2.2m net
 - Education Home to School Transport £2.34m
 - ASN Pupil & Social Care Client Transport £0.72m net

In addition, there are approximately £300,000 annual staff costs.

4.2 Tender results

- 4.2.1 Tenders for all in scope services were issued in November for a period of 6 weeks and responses were required by December 13th 2019. The tenders were reviewed by SIC procurement and ZetTrans transport officers.

Public bus and school buses

- 4.2.2 The summary table below shows that the new 104 contracts will cost £4,398,021, a reduction of £471,094 on 2020/21 budget targets.

Table 4-1 Tender Results

2020/21 - Public Local Bus Service (Gross)	£2,717,534
Tender Price Total - Public Service (Gross)	£2,603,037
Removal of Sv43R	£30,600
Minor Additional Requirements	£-4,000
Savings	£141,096
2020/21 - School Transport	£2,151,581
Tender Price Total - School Transport	£1,821,583
Savings	£329,997
2020/21 Combined	£4,869,115

Tenders	£4,398,021
Total Contract Savings	£471,094
Total Overall Savings against Target	£471,094

- 4.2.3 The 104 contracts in the Optimised Network option will be offered individually or in packages to 15 operators. The largest award to one operator was a total contract award valued at £1,064m pa for 20 contracts. Generally, levels of competition have improved with 298 individual contract bids received bids and a 1.77 bids per average for each contract (1.98 for public bus contracts). In comparison the 2014 network tenders the bids per contract were received at an average of 1.43 (1.48 for public bus contracts). A good spread of contract awards has been made to a range of large and small operators, reducing the risks of less competition or monopolies occurring in the future. The average contract award is 8 contracts per operator.
- 4.2.4 Contracts were offered for both 5 year and 7 year duration, but apart from the potential cumulative savings of £471,094 pa for years 6 and 7, the longer duration and income certainty for operators did not significantly impact on contract prices offered by them. It is proposed to award on a 5 year contract term, to ensure the benefits of regular market testing and encouraging competition are maintained.
- 4.2.5 Because the savings required by the Service Redesign Programme have been achieved within the Optimised Service package no further review work or public consultation was undertaken on the reduced services option. As the contracts being operated are in most cases the same as current timetabled services, with only minor changes or enhancements, it was agreed that a comprehensive public consultation exercise was not required.

ASN and ASW Transport

- 4.2.6 In addition to the public bus and school transport a full review of transport provided for Additional Special Needs and adult social work services was undertaken.
- 4.2.7 Having undertaken a full analysis of the ASN/ASW tender results the key outcomes are as follows:
- Number of contracts tendered = 17
 - 8 contracts were for ASN Schools at a value of £115,796
 - 9 contracts were for ASW at a value of £291,015
 - Total value across the 17 contracts = £406,811
- 4.2.8 The gross cost outcome figures as follows:
- 2020/21 Target for ASN School Transport = £209,193
 - Predicted spend = £163,060
 - 2020/21 Target for ASW Transport = £261,341
 - Predicted spend = £305,528
- 4.2.9 In the budget analysis however taking into account the total cost of all of the tendered contracts, plus all the additional cost elements such as parental mileage arrangements,

additional escorts on mainstream transport, etc. (which are paid for through the same budget code) the net budget position is as follows:

- ASN School Transport underspends against the 2020/21 target budget by £46,133
- ASW Transport overspends against the 2020/21 target budget by £44,187
- The overall net position is therefore a saving of £1,946

4.3 Assessment

- 4.3.1 The procurement of the new contracts has resulted in a positive outcome, with the 'preferred way forward' Optimised Network package being affordable and the required levels of Service Redesign Programme savings achieved.
- 4.3.2 The mix of operators has changed it is recognised that the award of the new contracts in advance of the August 2020 start date will require sensitivity to 'winners and losers'. On award some minor revisions to contracts will probably be required as operators may not be able cover contracts as efficiently as anticipated and so may not take up contracts or may seek revisions. Therefore, some renegotiation is inevitable but it is not expected it will have a substantive impact on the overall costs or service outcomes.
- 4.3.3 As part of the FBC process it is important to review the selected service package against the previously identified short list of options, to sense check the public value and delivery against investment objectives, business needs and critical success factors.
- 4.3.4 This analysis has been undertaken and the Preferred Way Forward package of the Optimised Network (Option 3) meets the agreed objectives and CSFs better than alternatives such as do nothing or do minimum. Because it has been achieved through retendering with net saving of £471,000 it also meets the Service Redesign Programme objectives. Further enhancement of local bus services in the medium to long term can also be considered if the savings are sustained or are further improved.

Contracts Award and Monitoring

- 4.3.5 The Project Plan in Appendix A identifies the next steps following the committee decision and award of contracts in February 2020. As part of the business case review considerable attention has been given to both the procurement of services and the ongoing monitoring of project outcomes. It is recognised as best practice and a key factor in mitigating risk to monitor services throughout their contract duration, taking action to ensure compliance, user benefits and value for money.
- 4.3.6 In order to ensure compliance with all conditions of contract, ongoing monitoring will be crucial to the continued provision of these contracts.
- 4.3.7 At present the staff resource within the Transport Planning Service for monitoring is 37 hours per week which is covered by two part-time Transport Assistant – Monitoring posts. Our assessment suggest that this insufficient to fully observe and regulate a large group of services over a large and predominantly rural area.
- 4.3.8 It is therefore recommended that this monitoring provision be increased to 60 hours per week. The full cost to the Council of this proposal is £21,460 per annum.
- 4.3.9 This level of resource will ensure enhanced compliance monitoring and assist in greater information provision, as follows:
- Schedule adherence

- Operator licensing
- Vehicle licensing
- Driver licensing and CPC
- PVG scheme membership
- Employers liability insurance
- Public liability insurance
- Continuity plans
- Permit checks
- Ticket sales
- Passenger numbers
- Passenger surveys
- On-bus checks
- Statistical analysis
- GIS mapping
- Public information provision
- Disruption information provision

5 Conclusions

5.1 Summary

- 5.1.1 The Full Business Case is the third and final element in the development of the Shetland Islands Council's and ZetTrans 'Public Bus, School and Adult Social Care Transport Business Case'. Following the identification and testing of strategic options ZetTrans and the Council have now completed the tendering for the next generation of public, school and social care transport networks, which will, subject to SIC and ZetTrans approvals, commence operation from 17th August, 2020 for a period of 5 years.
- 5.1.2 The FBC review primarily focussed on the key matters of project funding, procurement and delivery, as the strategic and economic objectives were identified and assessed previously in the Strategic Outline Case and Outline Business Case. The key investment objectives, business needs and project success criteria that were considered in the initial two reviews have been reassessed, but no changes were identified that might have an impact on achieving the overall project objectives.
- 5.1.3 The commercial and management cases were also reviewed to confirm that the procurement and governance processes applied were consistent and 'fit for purpose', which we believe they were. The FBC also updated the risk register, which suggests that the low level of risk identified earlier has been to an extent further reduced and mitigated through a successful tender process.
- 5.1.4 Tendering for the new 5 year transport contracts has resulted in a positive outcome, with the 'preferred way forward' Optimised Network package being both affordable and meeting the required levels of Service Redesign Programme savings. On an overall transport budget of £5.26m pa savings of £473,040 pa will be achieved, subject to final review, contract award and any subsequent negotiation.
- 5.1.5 Following the contract award the Council and ZetTrans will undertake its regular contract reviews annually and then retender in 4 ½ years. It is recommended that additional contract compliance is undertaken. It is also recommended that a Post Project Evaluation is undertaken to assess the value of using the Treasury Business Case approach in reviewing this service and any lessons learnt for the next contract review in 2025.

Appendix A Updated Project Plan

Public Bus, School and Adult Social Care Transport Business Case
Full Business Case

Date	Action	Lead
10/01/20	Draft Full Business Case completed by Consultants	Stantec
13/01/20	Provide final draft FBC to Project Board (not including the contract detail)	ZetTrans
21/01/20	Provide final FBC and Cover report to Project Board to confirm approval with Chair	ZetTrans
24/01/20	Chair 'sign off' on FBC following approval from Board Members	SRO
3/02/20	Member Seminar on FBC	SRO
13/02/20	ZetTrans Committee approve FBC and contract awards	SRO
13/02/20	SIC Committee approve FBC and contract awards	SRO
13/02/20	Press release	SIC
17/02/20	Notification of contract award to operators	ZetTrans
February - March	Liaison with operators, contract negotiations where required	ZetTrans
March - April	Liaison with internal and external stakeholders – communities, schools, social care	ZetTrans
May - June	Advise Traffic Commissioner of local bus registrations if change of contract/operator (56 days minimum)	Operators
May - July	Operator mobilisation period - driver recruitment, vehicle procurement, route familiarisation, publicity	Operators
May - August	Service information and publicity – updates, dissemination	ZetTrans
May – August	Ticket machine resource re-alignment – transfer between vehicles and back office set up for service amendments and operator changes	ZetTrans
17/8/20	New contracts commence	ZetTrans
August – September	Deal with operational, contractual matters arising	ZetTrans
February 2021	Post Project Review	ZetTrans
August 2021	Annual Contract Review – year 1	ZetTrans
August 2022	Annual Contract Review – year 2	ZetTrans
August 2023	Annual Contract Review – year 3	ZetTrans
August 2024	Annual Contract Review – year 4	ZetTrans
September 2024 – February 2025	Contract retender	ZetTrans
August 2025	New Contracts	ZetTrans

Appendix B Risk Register

Public Bus, School and Adult Social Care Transport Business Case
Full Business Case

Main Risk	Mitigation	Option 2 Optimised Network: 2021 Introduction Scenario 1		Option 3 Optimised Network: 2020 Introduction Scenario 1		Option 4 Enhanced Network: phased Introduction Scenario 2		Option 5 Enhanced Network: 2020 Introduction Scenario 2		Option 1 Reduced Network: 2020 Introduction Scenario 3	
Business Risks	100% within business	Level of Risk?	Mitigation Possible?	Level of Risk?	Mitigation Possible?	Level of Risk?	Mitigation Possible?	Level of Risk?	Mitigation Possible?	Level of Risk?	Mitigation Possible?
Lack of stakeholder engagement	Ensure adequate time to engage stakeholders in setting and/or validating: Scenarios Financial impacts Social and economic impacts Extend current contracts to accommodate this if required	2	2	1	1	2	2	2	2	3	3
Clarity on political view on service reductions or enhancements if necessary	Provide Members with a menu of costed Scenarios along with their implications in relation to organisational finance, and in relation to meeting the aspirations of	3	3	1	1	2	2	2	2	3	3

Public Bus, School and Adult Social Care Transport Business Case
Full Business Case

	related strategies and plans										
Lack of organisational experience in full business case development and implementation	Identify knowledge gaps and agree how they will be addressed Professional support as required	1	1	1	1	1	1	1	1	1	1
Availability and commitment of internal resources for FBC stage: Project Team: Transport Planning, Children's Services, Health and Social Care Legal and Procurement Project Board: Senior management time to be involved	Ensure project is carefully planned and engage with senior managers to agree and secure the necessary resources	3	2	1	1	2	2	3	2	3	2
Service Risks	Shared with other organisations										

Public Bus, School and Adult Social Care Transport Business Case
Full Business Case

Suppliers – Are suppliers in a position to be more competitive through efficiency?	To be identified through stakeholder engagement and ultimately through tendering	3	2	1	1	2	2	3	2	3	2
Specification – there is a tension between the expressed needs from users, policy, other agencies and financial constraints	Ensure clarity in service specification on requirements and brief all groups on potential compromises that may be required well in advance	3	2	1	1	2	2	3	2	3	3
Timescale – sufficient lead in time is required to allow operators to secure the required vehicles	Liaise with operators and manufacturers if necessary with regard to supply chain for new vehicles – could Council advance procurement assist?	2	1	1	1	2	2	3	2	2	1
Change management and project management - Community Planning and Locality Planning in transition and not yet mature	Commence early engagement with directorates and teams that may be considered needing additional support in any service transition	3	3	1	1	2	1	2	1	3	3

Public Bus, School and Adult Social Care Transport Business Case
Full Business Case

External Risks	Non-systemic risks – whole society										
Wider risks may arise through political uncertainty, consequent economic pressures, impact on oil and gas industry, climate change	Recognise limited ability to mitigate wider societal risks but ensure awareness and consideration of the project in wider context	2	1	1	1	3	2	3	2	1	1
Total		22	17	9	9	18	16	22	16	22	19