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Title of meeting:	Cabinet
Subject:	PFI - The Way Forward
Date of meeting:	21 March 2023
Report by:	Tristan Samuels; Director of Regeneration
Wards affected:	All

1. Requested By

- 1.1. This paper has been requested by the Cabinet Member for Traffic and Transportation.

2. Purpose of report

- 2.1. The purpose of this report is to summarise PCC's current contractual and commercial position in relation to the PFI Highways Maintenance Contract.
- 2.2. To note the transfer to the Regeneration Directorate and proposed arrangements to manage the contract.
- 2.3. To note the contract ends on 31 March 2030 and make members aware of the process of contractual Handback.
- 2.4. To note the first steps in preparing for highways maintenance that follows the end of the PFI contract.

3. Information Requested

Background

- 3.1. The PFI contract was entered into in 2004 with Ensign Highways Ltd; a special purpose vehicle to which Colas is appointed to carry out the works. Colas' responsibility under the contact is primarily to repair, maintain, operate and manage 455km of highway network.
- 3.2. This contract will expire on 31 March 2030.

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- 3.3. The PFI contract was drafted around the core principle of up-front capital rehabilitation of the carriageways to save a lifetime of repeated "patch and mend". This approach meant that PCC could deal with the underlying causes of carriageway and footway deterioration (ie bring the road up to an "acceptable" standard as defined in the contract) and then keep them well maintained through a light touch approach for rest of the life of the contract.
- 3.4. The main functions of the PFI that are delegated to Colas, are routine and cyclic maintenance of carriageways, footpaths, kerbs, gully, drainage runs, roads surface, white lines and more.
- 3.5. This includes winter maintenance, street lighting, street cleansing, maintenance of highway structures, arboriculture and landscape services, surface drainage gullies and pipes and third party claims (accidents). Colas also provide an emergency response, network management and the co-ordination with utilities.
- 3.6. Beyond the initial mobilisation in 2004, during which time Colas set up the compound in Walton Rd and got ready to commence the works, the 25-year contract comprised four parts:
 - Core investment period (first 5 years)
 - Life Cycle Replacement (remaining 20 years)
 - Operation and Maintenance (throughout the 25-year life of contract)
 - Handback (last 5 years)

These, and the contract structure, are explained in more detail in Appendix A.

Handback

- 3.7. At the end of the contract, each element of the network shall comply with the Handback Requirements. These are detailed in the contract and cover the condition of everything that Colas has been looking after for the last 25 years.
- 3.8. The contract is very specific as to the requirements for Handback of each component of the network. In simple terms, the network shall be in a condition such that only minor repairs and whole life intervention maintenance are required.
- 3.9. Surveys carried out jointly by Colas and the PCC client team, will take place before the end of the contract to make sure that the condition of the network is adequate and if not, there is time to carry out improvements and repairs.
- 3.10. These surveys start no earlier than 5¼ years (31 Dec 2024) before the end of the contract and no later than 4¾ years (30 June 2025) before the end of the contract.

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Cost and Funding

- 3.11. The Council pays a Service Payment (also known as Unitary Charge or UC) to Colas. 80% of this is indexed linked to a combination of Retail Price Index (RPI) and Civil Engineering Formula (CEF). The combination is based on 50% RPI and 50% CEF.
- 3.12. The estimated value of the total Contract was £587M in July 2004. The price was fixed for the defined network and services for the entire period of the contract except for an agreed indexation to compensate for inflation.
- 3.13. The Contract is funded through a DfT PFI Revenue Grant (£254m), DfT LTP Maintenance Grant (£41m) and from the council's own contributions.
- 3.14. The key risk areas for the PFI will be identified through a collaborative approach with the contractor, the banks, PCC (councillors and senior officers) and the DfT. These will be brought back to cabinet in a future paper.
- 3.15. Work that identifies areas of the contract that could be handed over to PCC before the end of the contract that lead to a financial saving are being investigated.

Working with the DfT

- 3.16. Officers are currently working with the DfT who are be able to provide support in the way of partnering, engagement (on Teams and in-person) and the provision of technical and managerial guidance.
- 3.17. Provision is made through the DfT's "PFI Expiry" team. This team leads on networking and collaboration for key parties and stakeholders including Local Authorities, the Infrastructure Projects Authority (IPA), Local Partnerships and National Highways. There are regular PFI Expiry meetings and networking events that officers are linked into and play an active part.

The Next Seven Years

- 3.18. Over there next seven years, it is important that:
 - the highway assets (roads, bridges, lamp columns etc) continue to be well maintained as required under the contract
 - the highway assets are all inspected and checked to ensure they are at the standard required under the contract before the end of contract in 2030
 - the PCC client team is adequately resourced to ensure the Business As Usual (BAU) requirements of the contract are met
- 3.19. The continued maintenance of roads, bridges and lamp columns etc as well as the operational functions of the contract such as events, network management,

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cleansing, weeding etc will continue as normal until 2030. This is known as Business As Usual (BAU) and it is the responsibility of the PCC client team to ensure that Colas perform their duties under the contract and manage payments etc.

- 3.20. The PFI contract includes clauses that define the condition of the highway assets before Colas can release them back to PCC in 2030. The PCC Client Team, including its inspectors and with support from the DfT and technical experts, will work with Colas to ensure this condition is met. This is important as it defines the value for money legacy that will remain post 31 March 2030.
- 3.21. The PCC Client team, now part of the Regeneration directorate, is currently under-resourced for this BAU and Handback function. The assistant director for Infrastructure is working with Councillor Lynne Stagg (T&T portfolio lead) and HR to strengthen this team.

PFI Expiry

- 3.22. There is an important but separate piece of work, that relates to the arrangements for highways maintenance that will follow the end of the PFI in 2030.
- 3.23. The options for highways maintenance post March 2030 will be drawn up. A paper will be brought back to cabinet which outlines the recommended approach with options by which the cabinet will be able to make an informed decision; including cross part agreements if so desired.
- 3.24. Following the development of options and a decision by cabinet, the implementation of the new arrangements will begin. This is a substantial piece of work over several years. Resource and funding will need to be made available for this to be successful.
- 3.25. The cabinet should note that adequate resource will need to be assigned to deliver this workstream and funding will be needed that is in addition to that currently available for the usual business of delivering the PFI contract.
- 3.26. This resource will also have duties around the impact of inflation on the PFI and changes to the contract over the next seven years through contractual deeds of variation.

Governance

- 3.27. Governance will be agreed with the cabinet member for Traffic and Transportation. It is likely that there will be an executive board on which will sit the cabinet member for traffic and transportation as well as the cabinet member for Environment.

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3.28. An officer project board that includes the council's S151 officer and the Director for Regeneration will manage the day-to-day quality, programme and budget aspects of this workstream.

Timeline

3.29. Key dates that followed the signing of the contract on 30 July 2004 are as follows:

	<u>Start</u>	<u>End</u>
Mobilisation (6 months)	1 Aug 2004	31 Jan 2005
Core Investment Period (4 years and 6 months)	1 Feb 2005	31 July 2009
LCR (20 years and 8 months)	1 Aug 2009	31 March 2030

3.30. Works required to bring the network up to contractual condition will start in 2025/26 and the technical inspections ahead of this start in Dec 2024. Technical specialists and resource will be employed to support the PFI team in this work.

3.31. Work to introduce savings is underway. These will need to be realised no later than 2 years ahead of the PFI expiry to prove beneficial.

3.32. DfT requires preparation for PFI expiry to start around 7 years before the end of the contract. We will have initial formal discussions with the DfT Q1/Q2 of 2023/24.

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Signed by:

Appendices: Appendix A

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
PFI - The way forward	Appendix A

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The recommendation(s) set out above were approved/ approved as amended/ deferred/
rejected by on

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Signed by: