

Local Members' Interest
N/A

Prosperous Staffordshire Select Committee - Thursday 20 June 2019

Infrastructure+ and Lighting for Staffordshire Performance Review

Recommendation(s)

That the Prosperous Staffordshire Select Committee (PSSC):

- a. Is provided with an update of contract performance for the Infrastructure+ partnership and Lighting for Staffordshire Private Finance Initiative (PFI) respectively; and
- b. Considers what additional performance information would be beneficial in ensuring both contracts are achieving the required aims.

Report of Helen Fisher, Cabinet Member for Highways and Transport.

Summary

What is the Select Committee being asked to do and why?

1. To receive operational performance on two long-term highway service delivery contracts: Infrastructure+ and Streetlighting Private Finance Initiative (PFI); and provide direction on future or additional performance measures necessary to demonstrate these contracts are achieving their required aims.

Report

PART 1: INFRASTRUCTURE+

Background

2. Infrastructure+ is an Overarching Agreement between Staffordshire County Council and Amey LG providing an outcome focused approach to the delivery of highway and non-property infrastructure services across Staffordshire. It is aligned to the Council's Strategic Plan through the achievement of priority outcomes as demonstrated in Appendix 1.
3. The contract went live on 1 October 2014, since then it has:
 - a. Successfully delivered over £150m of highway maintenance operations and projects;
 - b. Achieved over £30m of front-line service cost savings; and
 - c. Implemented over £100m of inward investment highway and transport infrastructure improvements to support the creation of over 10,000 new jobs and 8,500 new houses across Staffordshire.
4. A core element of the Infrastructure+ partnership is a Term Service Contract (TSC) for the maintenance, management and improvement of over 6,300Kms of highway network. Good performance in this challenging front-line service area is commercially

incentivised with priority access to additional 'call-off' contracts for the delivery of major highway infrastructure improvement projects, subject to Best-Value also being demonstrated. Major infrastructure projects have their own performance management system, including assurance around key measures such as the predictability of time, cost and quality.

5. With regards to the TSC activities the best use of resources is achieved by adopting preventive maintenance strategies and targeting resources as set out in the council's Cabinet approved Highway Infrastructure Asset Management Plan (HIAMP). This is covered in a concurrent report to PSSC.
6. However, working within the limits of the available funding means that achieving locally desirable service levels is not always possible. This elevates the need for effective local engagement, timely communication and availability of clear information. To support this need early in the life of the Infrastructure+ partnership the Prosperous Staffordshire Select Committee (PSSC) developed an Action Plan, which was agreed on 26 April 2016 and completed on 19 September 2018.

Governance Arrangements

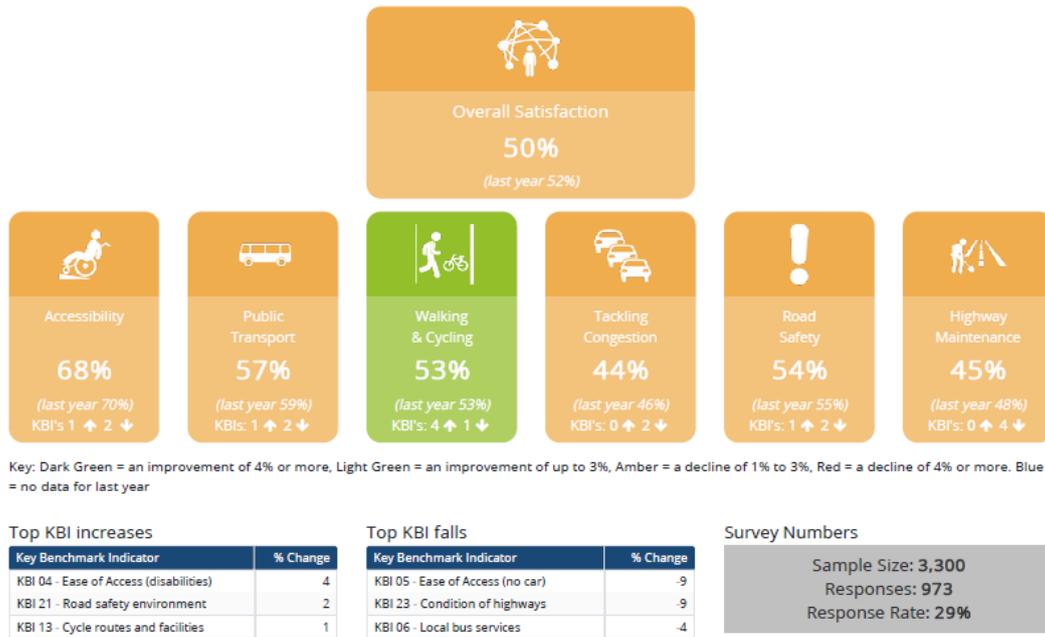
7. The Governance Framework for Infrastructure Plus, which includes Performance Management, operates within three tiers:
 - a. Strategic Partnership Board (SPB);
 - b. Operational Commissioning Board (OCB); and
 - c. Delivery Project Teams (DPT's) and Outcome Groups (OG's).
8. The SPB generally meets three or four times per year and receives a report on performance at each of its meetings. Membership of the SPB from the county council is: Darryl Evers Director for Economy, Infrastructure and Skills (Chair); Rob Salmon Deputy Director for Finance and Resources; Mark Deaville, Cabinet Member for Commercial; Mark Winnington, Cabinet Member for Economic Growth; and Helen Fisher, Cabinet Member for Highways and Transportation.
9. The OCB generally meets monthly and receives performance reports from each of the DPTs on a rotating quarterly basis. Membership of OCB includes senior managers from both the county council and Amey.
10. The DPT's and OG's similarly meet monthly to review the performance and continually improve the services for which the respective groups are responsible. Membership is made up of operational delivery managers from both the county council and Amey. The Customer Outcome Group is chaired by Helen Fisher, Cabinet Member for Highways and Transport, and has cross-party support from other engaged local Members.

Performance Management

11. An overview of the Infrastructure+ Performance Management framework is provided in Appendix 2.
12. Operational performance is managed through a balanced scorecard process for each of the following areas:

- a. Staffing
- b. Routine, reactive and cyclical maintenance
- c. Asset Management
- d. Planning
- e. Network Management & Inspections
- f. Quality
- g. Laboratory

13. The scorecards compare each measure against a target to produce a score on a range of +/-1. Two targets are generally set for each measure, including one based on historic performance and a higher stretched target based on being able to secure performance improvements. Each DPT is responsible for agreeing these targets and will also seek to use wider benchmarking information across Amey or the wider sector wherever this is available.
14. Operational performance of the partnership is discussed at each meeting of the Strategic Partnership Board. At the last meeting of the SPB on 28 February 2019 operational performance was scored as +26 on a range of +/- 63 and accepted as satisfactory taking into consideration the funding constraints particularly around highway maintenance. The SPB Performance report and supporting scorecards is attached as Appendix 3.
15. There are also several other activities and programmes that require bespoke performance reporting arrangements. The following provides a summary of each.
- a. Finance: Expenditure against budget allocations is monitored through the year and adjustments made as necessary, for example to be able to respond to weather events. The partnership has an excellent track record of ensuring that service delivery is constrained to within the overall level of financial resources. Up to the end of April 2019 over 88% of Infrastructure+ supply chain expenditure has been retained within the geography of Staffordshire and neighbouring authority areas.
 - b. Value for Money: Value for money continues to be ensured through commercial competition within the supply chain (subcontractors, plant and materials) as well as benchmarking of direct labour costs and operational performance. An independent Value for Money (VfM) review completed in the summer of 2018 by the Future Highways Research Club (FHRC) concluded that: *“Infrastructure+ is providing satisfactory value for money through a forward looking and constructive partnership”* and that *“the service compares favourably to many peers and peer authorities are often keen to understand how the partnership operates”*. Additionally, early in 2019 an independent review of the Target Cost estimate for Stafford Western Access Road completed by Faithful and Gould concluded that: *“Amey’s Target cost is competitive and reflective of current market conditions”*.
 - c. Public Satisfaction: The National Highways and Transport customer survey shows a downward trend in public satisfaction for highways and transport services across the country. The largest downward movement is in the Condition of Highways, where 85% of the authorities saw their result drop by more than 4% in 2018. The other main areas of decline are in respect of Pavement & Footpath condition and general Highway Maintenance. The Overall Summary for Staffordshire County Council shows there to be a decline in levels of satisfaction across all but one of the key themes.



16. As part of the 2019/20 Infrastructure+ Business Plan the Strategic Partnership Board has agreed the following improvement-plan priorities:

- Implement new national code of practice 'Well Managed Highway Infrastructure' 2016;
- Develop Permit Scheme Business Case including consideration of delivery options;
- Review how the partnership manages third-party claims, including allocation of risk and liability;
- Maintenance management tracker and reporting;
- Develop and implement a Communication Strategy, roadmap and delivery plan;
- Develop and implement a new workforce plan;
- Review how the partnership undertakes asset management, from strategic role to life cycle planning and delivery mechanisms; and
- Review and develop an asset-based Performance Management Framework.

Extra investment strategy

17. The local road network is the council's single largest physical asset, with a gross replace value of over £7 Billion. The Government's own endorsed Asset Management approach to highway maintenance recognises that a highway network the size of Staffordshire's requires around £42m/year of sustained capital (life-adding and renewals) investment to achieve 'steady-state' condition. Staffordshire's allocation for 2019/20, inclusive of all well publicised 'top-ups' such as the Pothole Action Fund is around £20m i.e. about half of what is needed to keep the network in the same condition as it is now.

18. Additionally, reductions in Revenue Support Grant and internal pressures in social care and children's services mean that since 09/10 highway maintenance revenue budgets, which traditionally pay for the routine day-to-day management of the network, have had to make savings that now add up to over £13m/year (57%) ongoing.

19. To help achieve these savings some of the capital grant funding allocation is now being used to fund elements of routine highway maintenance traditionally funded from revenue. The consequence being that even less capital funding is available for the larger and much needed renewal and resurfacing schemes.
20. The total remaining highway revenue budget is £26m; approximately 5% of the Councils total annual revenue budget. After commitments including the streetlighting PFI, School Crossing Patrols and a range of statutory functions approximately £10m (2% of the Council's total revenue budget) remains for highway maintenance operations. This provides the following functions:
- Response to emergency defects, accidents and weather events (£3m)
 - Winter Gritting operations (£3m)
 - Grass cutting, weed treatment and tree management (£1m)
 - Signing, lining, barriers, fencing, etc. (£1m)
 - Gully emptying (£1m)
 - Other e.g. Recycling, safety equipment and training (£1m)
21. Due to the growing pressure on highway resources, reducing public satisfaction and an increasing trend in 3rd party claims Cabinet agreed a £5m/year extra investment strategy between 2017/18 – 2020/21. The aim of this money is to reduce the backlog, and associated reputational and financial liability, of long-standing low-risk potholes.
22. Progress is monitored monthly through a specific governance meeting chaired by the cabinet Member for Highways and Transport. In the 2-years to date the Extra Investment has provided c.100,000m2 of additional pothole repairs, over 50miles of pothole prevention surface treatments and £1m of targeted drainage improvements. The positive effect can be seen both in terms of reducing the total number and long-standing low-risk carriageway and footway pothole defects.

Table 1: Extra Investment Progress

	01/05/2017	26/03/18	25/03/19	Notes	Trend
Total number of pothole defects recorded on network at the start of new Financial Year.	11908	9,652	7,281		↓
No. of Cat 3 defects greater than 90-days old	8812	7376	5356		↓
New customer reports of pothole defects	23,000*	19934	16565	*Report system changed in 17/18. The 16/17 data is a pro-rata estimate.	↓
Right 1 st time repair	96%	96%	96%	Quality maintained despite the increase in work volume.	↔

23. The investment strategy during 2019/20 is to provide an extra:
- £2m to provide a further 40,000m2 of extra pothole repairs (approx. 9,000 individual defects);
 - £2m to provide approximately 40 miles of additional low-cost pothole prevention surface treatments; and

- c. £1m towards additional drainage repairs, targeted at locations where poor drainage is leading to premature road surface deterioration.

PART 2: LIGHTING FOR STAFFORDSHIRE

Contract Summary

24. In May 2003 Lighting for Staffordshire Ltd commenced delivery of the street lighting Private Finance Initiative (PFI) contract. The contract formerly commenced on the 19 May 2003 and will operate for a period of 25 years. Lighting for Staffordshire Ltd is a holdings company commissioned to deliver the contract via an appointed Service Provider. The appointed Service Provider tasked with works delivery is E.on Energy Solutions Ltd. E.on UK Energy Services Ltd is the majority shareholder of Lighting for Staffordshire Ltd. The value of the contract at its commencement was £250m and the Council receives a Revenue Support Grant of £1.54m per annum to support delivery of the contract.

Reasons Challenge/Aims

25. The primary reason for the PFI contract was to redress a continued lack of investment in street lighting assets to maintain the equipment at an appropriate condition level. Prior to contract commencement 24% of the street lighting stock of 99,343 assets was at significant risk of catastrophic failure. The PFI procurement route was determined as the most appropriate solution to secure the additional funds required to bring the street lighting assets up to the required standards to maintain highway safety.
26. The majority of PFI contracts complete their asset renewal programme within the first five years of operation, with the remainder of the contract period, typically 20 years, focused upon asset maintenance. The Staffordshire Street Lighting PFI contract is fundamentally different in that we have a continuous programme of asset renewal throughout the full contract period. This approach prevents a big bang scenario in future years, when a large number of assets would potentially require renewal over a short period of time, demanding a significant peak in financial demands. This also allows the authority and the PFI contractor to continuously benefit from any technological advancements that would enhance service delivery.
27. Since the contract commenced back in 2003 the number of street lighting assets on the highway network has risen from 99,343 to 108,753 as of March 2019, generating a growth of 9.5% over a 16-year period. This level of growth is anticipated to increase as more largescale developments achieve adoptable status.

Governance arrangements

28. The Governance arrangements for PFI contracts are generally undertaken by the appointed PFI contractor i.e. self-monitoring. However; as with most PFI contracts some degree of ancillary monitoring is undertaken by the authority to ensure contract compliance. For this particular contract high level governance is provided by the Lighting for Staffordshire project board whose primary focus is to monitor the delivery of the project against their financial risks. Staffordshire's officers are invited to board

meetings on an ad-hoc basis to provide input on specific elements e.g. SCC requested Contract Change Notices.

- 29. For day to day governance SCC’s officers liaise with the appointed Service provider, E.on Energy Solutions Ltd. Regular contract review meetings are held to monitor / review the delivery of the service against a series of Performance Standards 1-6 (PSI to PSVI). The Service Provider submits a monthly report that summarises progress over the specific period (Appendix 5). The Service Provider is also required to produce an annual report that provides an overview of the project achievements for the year (Appendix 6).
- 30. In addition to the above an appointed Engineering Certifier undertakes a series of additional checks against the Performance Standards PSI to PSVI. The Engineering Certifier also commissions annual external and internal audits of the asset management system. This to verify compliance with specific contract requirements.
- 31. Due to the high financial value of the contract the authorities own audit team undertake regular audits of the management and monitoring arrangements in place for the Street Lighting PFI contract. The most recent audit (2016/17) provided a level of ‘Substantial’ assurance for the management and monitoring arrangements applied to the contract.

Progress / Performance summary

- 32. In terms of performance the PFI contract has two distinct elements: asset renewal programme; and general maintenance operations.

Asset Renewal

- 33. The asset renewal programme is delivered in 5 yearly blocks and can be broken down as detailed in Table 1.0.

Table 1.0 – Asset Renewal Programme

Block Period	Target Asset No.	Actual Asset No.
IARP - (2003 to 2008)	27,059	25,503
AARP-1 (2008 to 2013)	11,590	12,188
AARP-2 (2013 to 2018)	9,370	10,616
AARP-3 (2018 to 2023)	9,170	2,053
AARP-4 (2023 to 2028)	7,700	-
Total	64,889	50,360 (at March 2019)

- 34. The asset renewal programme is continuously assessed to ensure that assets with a longer than expected life cycle are not replaced earlier than necessary. To verify this once a street lighting column reaches the age of either 25 or 35 years (depending upon construction) it is subject to a structural testing regime to maximise the life of assets with a residual life and to identify assets that have degraded earlier than anticipated.
- 35. The discrepancies in Table 1.0 between the Target and Actual number of assets replaced is due to the mechanism used for the value of an asset. Each type of asset scores points between 1 and 4 and depending upon the type of asset renewed will generate a specific points claim. We are limited to a maximum permissible points claim per Block Period due to the payment mechanism contained within the contract. We

believe that our approach when assessing which assets require renewal provides the most cost effective solution to maximise the benefits of the PFI contract.

General Maintenance

36. The PFI contract provides a consistency of funding which sustains asset condition at a manageable level. The benefits of this continuous investment with respect to general maintenance operations are significant and we consistently achieve the following outcomes from the contract:

- a. When compared to the contract commencement year, the number of reported faults has reduced by almost 50%, with emergency fault reports down by the same value;
- b. The number of lights lit at any point in time remains consistently high at over 99.4% against a performance target of 98%;
- c. A customer satisfaction rating of over 98% has been consistently achieved since the completion of the first Block period of investment IARP.

Additional Achievements

37. Following the credit crunch high value contracts such as the Street Lighting PFI contract were re-assessed for their value and to ascertain if costs could be reduced. To assist with this evaluation Ernst & Young were commissioned to independently review several of the council's high value contracts. Just prior to this commission, officers entered into negotiations with the PFI contractor with a view to achieving increased value against the requirements of the contract. Ernst & Young confirmed the officers' approach and outcomes from the negotiation process achieved maximum results on behalf of the council. A Contract Modernisation exercise was completed in December 2012, with the additional savings detailed in Table 2.0 being recovered by the council over the residual life of the contract.

Table 2.0 – Street Lighting PFI Contract Modernisation

Item	Proposal	Benefit (£000)
1.0	In accordance with HM Treasury Guidance	
1.1	Modernise the service specification whilst maintaining front line services requirements.	3,780
1.2	Insurance – annual release of insurance gain share benefits.	573
2.0	Street Light Renewal Programme	
2.1	Permit PFI partner to manage street light renewal programme on a risk managed basis.	
3.0	Energy Conservation Measures	
3.1	SCC and PFI partner to share inherent energy savings following street lighting asset renewal.	1,032
3.2	PFI partner to introduce dimming facilities for street lights included in the forward renewal plan (circa 26,000 units)	395
3.3	PFI partner to retrofit dimming facilities at previously renewed street lights (circa 15,000 units)	2,244
3.4	Those local communities which support the introduction of part night street lights, PFI partner offer to introduce the facility when included within the street light renewal programme (circa 3,200 units).	*200
3.5	Those local communities which support the introduction of part night street lights where street lighting renewal has already occurred, PFI partner offer to retrofit the facility (circa 3,200 units).	*200
4.0	Miscellaneous Items	

4.1	PFI partner to paint all columns to be renewed within conservation areas.	176
4.2	Inventory Management System – system managed by PFI partner and procured by the council. Procurement fee refund.	96
Total Benefit Over Contract Term		*8,296

* Items 3.4 and 3.5 will be subject to a formal request on behalf of local communities and will not be imposed by the county council. The take up for part night switching may therefore be lower than the figures quoted and have therefore not been included in the 'Total Benefit Over Contract Term'.

38. The total cumulative savings against each of the relevant headings applied from January 2013 to the end of December 2018 are summarised as follows:

a) Modernisation of service specification	£1,349,830
b) Insurance Savings	£429,672
c) Asset Renewal High Efficiency Lanterns	1,203,137 kWh/annum*
d) Asset Renewal Dimming	458,807 kWh/annum*
e) Retro Fit Dimming	3,829,314 kWh/annum*

(*For reference items c, d and e are subject to an agreed gain share mechanism.)

39. Converting the kWh energy savings to a fiscal value, the total SCC Financial Savings to the end of Dec 2018 is **£2,189,099.00**

LED Investment Programme

40. As part of the Contract Modernisation the core specification was amended so the authority could benefit from the rapidly advancing LED street lighting market. Since January 2013 the price of LED street lights has gradually declined and is now the standard product to be procured for illuminating the highway network. As a consequence of market changes, we now have over 13,400 energy saving LED luminaires installed across the highway network. This is great news; however, with ever increasing energy prices and a more than acceptable payback period against investments, it was recommended that an Invest to Save approach be considered to replace as many energy inefficient street lights without compromising the overarching benefits of the PFI contract.

41. Preliminary assessments indicated that we could convert approximately 36,000 existing street lights over to energy efficient LED lanterns for a cost approaching £10m. This level of investment would recover energy savings of £1m per annum. The £10m investment loan would in addition incur interest charges.

42. The above figures determined incorporation into the corporate MTFS savings strategy and established the project as an Invest to Save deliverable project.

43. Further detailed assessment was undertaken of the street lighting inventory to establish a clearly defined programme of investment. In addition, the organisation known as Salix was approached to look at funding opportunities. Salix provides interest-free Government funding to the public sector to improve their energy efficiency.

44. Following an in-depth review of the street lighting inventory with the PFI contractor and the submission of a detailed business case to Salix the authority has secured an interest free loan of £8.8m to convert over 47,000 street lights to energy efficient LED lanterns, generating energy savings of £1.6m per annum. Project delivery details are

currently being finalised with the PFI contractor and we anticipate works to commence in September / October this year with full completion of the installation programme by March 2023.

Link to Strategic Plan

The Infrastructure+ contract is aligned with the “Leading for a Connected Staffordshire” business plan as set out in Appendix 1.

Link to Other Overview and Scrutiny Activity

Highway Infrastructure Asset Management Plan (HIAMP)

Contact Officer

Name and Job Title: James Bailey, Commissioner for Highways and the Built County
Telephone No.: 01785 276591
E-Mail Address: james.bailey@staffordshire.gov.uk

List of Background Papers:

Appendix 1 – Infrastructure Plus Outcomes 2018 – 2021
Appendix 2 – Infrastructure Plus Performance Management Roadmap
Appendix 3 – Infrastructure Plus Performance Report February 2019
Appendix 4 – Lighting for Staffordshire Progress Report 191
Appendix 5 – Lighting for Staffordshire Annual Service Report 2017/18