

Local Members Interest
N/A

Audit and Standards Committee - Tuesday 30 July 2019

Infrastructure+ Risk Management

Recommendations

- a. The Audit and Standards Select Committee receives an update of how risk is managed within the Infrastructure+ strategic partnership contract; and
- b. Considers whether additional measures would be beneficial in ensuring risk is adequately managed.

Report of Darryl Evers, Director of Economy, Infrastructure and Skills.

Summary

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

1. The collapse of Carillion highlighted the risks of public sector infrastructure projects, including the financial health of Principal Contractors. The Audit and Standards Committee is asked to consider how risk is currently managed within the Infrastructure+ partnership, including the financial health of Amey, and provide direction on future or additional measures necessary to ensure key risks are adequately managed.

Report

Background

2. Infrastructure+ is an Overarching Agreement (OA) 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 and since then it has:
 - a. Successfully delivered over £150m of highway 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 the 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.

Governance Arrangements

5. The Governance Framework for Infrastructure+ operates at three tiers:
 - a. Strategic Partnership Board (SPB);
 - b. Operational Commissioning Board (OCB); and
 - c. Delivery Project Teams (DPT's) and Outcome Groups (OG's).
6. The SPB generally meets three or four times per year. Emerging risks are identified at each meeting and a specific Risk Management item is considered every 6-months. Membership of the SPB from the county council is:
 - a. Darryl Evers, Director for Economy, Infrastructure and Skills (Chair);
 - b. Rob Salmon, County Treasurer;
 - c. Mark Deaville, Cabinet Member for Commercial;
 - d. Mark Winnington, Cabinet Member for Economic Growth; and
 - e. Helen Fisher, Cabinet Member for Highways and Transportation.
7. The OCB generally meets monthly and receives update reports, including details of any emerging risks, from each of the DPTs on a rotating quarterly basis. Membership of OCB includes senior managers from both the county council and Amey.
8. The DPT's and OG's similarly meet monthly to review the performance, continually improve the services for which the respective groups are responsible and identify any key risks for escalation. 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.

Risk Management

9. An overview of the Infrastructure+ Risk Management framework is provided in Appendix 2. The strategic partnership model means that there are organisational dependencies and external risk factors that need to be considered and managed collectively.
10. Risk rating is calculated as a product of the likelihood of an identified risk occurring, together with the potential severity of impact. Those with the highest level of risk rating are prioritised for mitigating action. Mitigating actions aim to be able to eliminate or reduce the risk rating to an acceptable level.
11. The Infrastructure+ risk registers and ratings were last reviewed at the meeting of the SPB on 28 February 2019. Across the Strategic and Partnership risk registers there are currently 11 items rated as presenting high-level risk. These include: Poor quality operational depots and ability to comply with relevant employer and environmental legislation; Workforce retention and planning; and Financial stability of Amey considering the ongoing dispute with Birmingham City Council and potentially being part of the future sale of Ferrovial's services business.

12. Through the governance arrangements outlined above proportionate risk mitigation actions have been prioritised in these high-risk areas and form part of the Infrastructure-Plus annual business plan.
13. Individual call-off contracts have their own specific risk registers. Risk is quantified in financial terms with adequate contingency allowance provided for in the specific service area or project budget.

Financial Stability of Amey

14. Partnership Risk 15 (PR0015) relates to the financial stability of the council's Infrastructure+ partner, Amey. The risk rating has increased over recent months because of Amey's much publicised contract dispute with Birmingham City Council and the announcement that Amey is also to be included in parent company Ferrovial's sale of its services business. Both these matters arose shortly after the Carillion collapse, which has amplified concerns as to whether either or both factors could present a risk to Amey's solvency.
15. The collaborative working arrangement of Infrastructure+ includes regular, open and honest dialogue about emerging key risks and working together to mitigate them. On 3 July 2019 Andy Milner, Chief Executive of Amey, wrote to the Council confirming that the dispute with Birmingham City Council has now been resolved and providing assurances that the company is in a strong financial position with a solid and stable future ahead.
16. Additionally, these risks are minimised by:
 - a. Payments only being made for completed works or goods received;
 - b. Closely monitoring Amey's company accounts, credit rating and supply-chain payment performance to provide early warning of insolvency risks; and
 - c. Suitable Business Continuity Plans being in place.
17. Because of the increased risk-rating members of the SPB have requested that detailed operating manuals be developed that set out the necessary step-by-step Business Continuity Plan (BCP) in the event of Amey becoming insolvent. Colleagues from across the council, including Human Resources, Finance and Legal, are currently being engaged in this activity.
18. The most likely solution would involve the council working with the administrator to continue to operate the Infrastructure-Plus contract as an ongoing profitable business until being able to agree the sale of Amey to a new provider.
19. Alternatively, major construction projects like Stafford Western Access Route (SWAR) include budget contingency to enable the site to be made safe and secure until another Principal Contractor is found.
20. Continuity of routine highway management activities such as emergency repairs and winter gritting could be managed in a similar way, with a fixed-term TUPE transfer of key staff and operatives to the SCC structure whilst a different delivery model is developed, or an alternative provider can be found.

Audit Plan

21. A further component to Infrastructure+ risk management is a comprehensive annual programme of internal audits. Appendix 3 provides the detail of completed and planned audits.

Link to Strategic Plan

22. 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

23. Prosperous Staffordshire Select Committee (PSSC) receives annual updates on the Infrastructure+ partnership operational performance and progress. The most recent report was considered as agenda item 6 on 20 June 2019 and is available together with appendices [here](#).

List of Background Documents/Appendices:

Appendix 1 – Outcomes 2018 – 2021
Appendix 2 – Risk Management Framework
Appendix 3 – Audit record and plan

Contact Details

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