

Local Members Interest
N/A

Prosperous Overview and Scrutiny Committee - Monday 29 November 2021

Infrastructure+ and Lighting for Staffordshire Performance Review

Recommendations

I recommend that the Prosperous Overview and Scrutiny Committee:

- a. Considers and scrutinises the 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 Cllr David Williams, Cabinet Member for Highways and Transport

Summary

What is the Overview and Scrutiny 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 £300M 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. 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). However, working within the limits of the available funding means that achieving locally desirable service levels is not always possible, which elevates the need for effective local engagement, timely communication and availability of clear information.

Governance Arrangements

6. The Governance Framework for Infrastructure+, 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).
7. The SPB generally meets three or four times per year and receives a report on performance at each of its meetings. From August 2021 membership of the SPB from the county council is: Darryl Evers Director for Economy, Infrastructure and Skills (Chair); Rob Salmon, County Treasurer; Mark Deaville, Cabinet Member for Commercial; Philip White, Deputy Leader and Cabinet Member for Economy and Skills; and David Williams, Cabinet Member for Highways and Transportation.
8. 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.

9. The DPT's and OG's similarly meet monthly to review 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.

Performance Management

10. An overview of the Infrastructure+ Performance Management framework is provided in Appendix 2.
11. Operational performance is managed through a balanced scorecard process for each of the following areas:
 - a. Staffing
 - b. Routine, reactive and cyclical maintenance operations
 - c. Asset Management
 - d. Quality
 - e. Insurance and Claims
12. 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.
13. Operational performance of the partnership is discussed at each meeting of the Strategic Partnership Board. At the last meeting of the SPB on 21 September 2021 operational performance was scored as +27 on a range of +/-49 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.
14. 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. Around 85% of Infrastructure+ supply chain expenditure is 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 2021 by the Future Highways Research Group (FHRG) concluded that: "The Infrastructure+ partnership is hugely challenged by budgetary constraints. Difficult decisions have had to be taken around priorities over a number of years of successive budget reductions and service standards are now at minimum statutory levels across most functions. Within this context, the service delivered is generally efficient and high quality, delivering a level of value for money that compares well with its peer group".
- c. Public Satisfaction: The National Highways and Transport (NHT) Public Satisfaction Survey collects the public's views on different aspects of Highway and Transport in local authority areas via a postal survey. In 2021, 111 authorities took part with 905 households responding in Staffordshire.
- d. The survey asks the public to consider how important and how satisfied they are feeling with services ranging from pavements to local taxi services. The Staffordshire public placed most importance on 'Safety on roads' and 'Condition of Roads' and least importance on 'Demand responsive transport' and 'Local taxi (or minicab) services'.
- e. The public were most satisfied with 'Street Lighting' and least satisfied with 'Condition of Roads'. 'Condition of roads' was the most popular choice for improving the level of service.

Importance, Satisfaction & Spending Priorities

The Survey asks the public to consider the following and rate how important and how satisfied they feel with each one. It also asks where they feel that the level of service provided could be reduced by spending less or improved by spending more.

- | | | |
|-----------------------|--------------------------|-----------------------------------|
| * Pavements | * Cycle Routes/Lanes | * Local Bus Services |
| * Local taxi services | * Community Transport | * Demand Responsive Transport |
| * Safety on Roads | * Traffic Congestion | * Traffic Pollution |
| * Street Lighting | * The Condition of Roads | * The Local Rights of Way Network |

Most Important
Safety on roads

Least Satisfied
Condition of Roads

Highest Priority
Condition of Roads

- f. Staffordshire's overall theme scores have generally seen a reduction in levels of satisfaction comparing 2021 to 2020 as shown in the table below. Compared to a year ago, the public's views are that there are more potholes and damaged roads, and the Council is doing less to repair local roads.

Results Overview by Highway and Transport Theme

Staffordshire's theme scores are compared with the NHT Average scores below. Also shown are the year on year change in results (Trend) and the difference from the NHT Average (Gap), which are highlighted in colour: blue and green for positive and amber and red for negative.

Theme	Description	Staffordshire	NHT Average	Trend	Gap
	Overall	46%	51%	-5%	-5%
	Accessibility	69%	70%	-2%	-1%
	Communications	41%	46%	-4%	-5%
	Public Transport	48%	55%	-4%	-7%
	Walking/Cycling	49%	52%	0%	-3%
	Tackling Congestion	41%	43%	-5%	-2%
	Road Safety	51%	52%	-3%	-1%
	Highway Maintenance	41%	45%	-4%	-4%

- g. Staffordshire's 10 highest and lowest scores are shown in the tables below. A significant number of the lowest scores relate to highway maintenance and these should be seen in the context of the reduction of the capital funding from the Department for Transport for replacing life expired highway assets of £8.735m in 2021/22 compared to 2020/22.

10 Highest Scores

Reference	Type	Indicator	Theme	Score
PTBI05	BI	How easy buses are to get on/off	Public Transport	67%
PTBI21	BI	Availability of taxis or minicabs	Public Transport	66%
PTBI22	BI	Reliability of taxis or minicabs	Public Transport	65%
KBI25	KBI	Street lighting	Highway Maintenance	64%
PTBI09	BI	Helpfulness of drivers	Public Transport	64%
HMBI05	BI	Provision of street Lighting	Highway Maintenance	62%
RSBI01	BI	Speed limits	Road Safety	62%
PTBI10	BI	Personal safety on the bus	Public Transport	62%
PTBI08	BI	Quality and cleanliness of buses	Public Transport	62%
PTBI12	BI	Raised kerbs at bus stops	Public Transport	61%

10 Lowest Scores

Reference	Type	Indicator	Theme	Score
HMBI30	BI	Speed of repair to damaged roads	Highway Maintenance	16%
HMBI01	BI	Condition of road surfaces	Highway Maintenance	19%
HMBI13	BI	Deals with potholes/damaged roads	Highway Maintenance	20%
KBI23	KBI	Condition of highways	Highway Maintenance	21%
HMBI31	BI	Quality of repair to damaged roads	Highway Maintenance	23%
KBI08	KBI	Public transport information	Public Transport	28%
CMQI17	QI	Reporting back what had been done	Communications	33%
HMBI22	BI	Deals with flooding on roads	Highway Maintenance	34%
TCBI11	BI	Tackling illegal onstreet parking	Tackling Congestion	35%
HMBI23	BI	Speed of repair to damaged pavements	Highway Maintenance	35%

Highways Transformation

15. Following local government elections in May, the County Council's new administration has been reviewing its future business priorities. After several difficult years of austerity and reduced service levels the new Cabinet has identified the highways service as one of the council's top priorities for reinvestment and transformation.

16. A transformation programme made up of the following three-parts is currently being developed and will be presented to the Prosperous Staffordshire Overview and Scrutiny Committee early in the New Year:
- a. Design of the Future Service Delivery Model;
 - b. Changing arrangements now, ready for the future; and
 - c. A new Investment Strategy.
17. The programme will aim to:
- a. Put communities and customer at the heart of the service delivery;
 - b. Provide greater control and flexibility of resources;
 - c. Launch a new enhanced communities offer; and
 - d. Focus on quality, improving our asset, and demonstrating value for money.

Supporting Information

18. 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 a one-off investment of around £200M to bring it up to target condition followed by £35M/year ongoing to achieve 'steady-state' condition in carriageway condition alone. This figure rises to over £50M when taking account of other highway assets e.g. Bridges and retaining walls.
19. Government grant funding for local highway maintenance in 21/22 was £24.914M, less than half of what is needed to achieve steady-state condition and meaning that the local road network is in a state of "managed decline".
20. The council's own highway revenue budget is around £27m, which equates to approximately 5% of the Council's total annual revenue spend. After commitments including the streetlighting, 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:
- a. Response to emergency defects, accidents and weather events (£3m)
 - b. Winter Gritting operations (£3m)
 - c. Grass cutting, weed treatment and tree management (£1m)
 - d. Signing, lining, barriers, fencing, etc. (£1m)
 - e. Gully emptying (£1m)
 - f. Other e.g. Recycling, safety equipment and training (£1m)

PART 2: LIGHTING FOR STAFFORDSHIRE

Contract Summary

21. 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

22. 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.

23. 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.

24. Since the contract commenced back in 2003 the number of street lighting assets on the highway network has risen from 99,343 to 108,406 (Aug 2021), a growth of 9.1% over an 18-year period. This level of growth will continue proportionately; however, the recent announcement for planning system reform may impact upon our original predictions for asset growth.

Governance Arrangements

25. 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.
26. 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 4). The Service Provider is also required to produce an annual report that provides an overview of the project achievements for the year (Appendix 5).
27. 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.
28. 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

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

Asset Renewal

30. 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	7,160
AARP-4 (2023 to 2028)	7,700	-
Total	64,889	55,467 (August 2021)

31. 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.
32. 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

33. 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:
- 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.
 - The number of lights lit at any point in time remains consistently high at over 99.3% against a performance target of 98%.
 - A customer satisfaction rating of over 98% has been consistently achieved since the completion of the first Block period of investment IARP in May 2008.

Additional Achievements

34. 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'.

35. The total cumulative savings against each of the relevant headings applied from January 2013 to the end of August 2021 are summarised as follows:

a) Modernisation of service specification	£2,165,464
b) Insurance Savings	£559,279
c) Asset Renewal High Efficiency Lanterns kWh/annum*	2,396,798
d) Asset Renewal Dimming kWh/annum*	668,111
e) Retro Fit Dimming 3,829,314 kWh/annum	

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

36. Converting the energy savings per annum to a fiscal value generated savings of £3.2m over the period April 2013 to August 2021. The total savings to the end of August 2021 due to contract modernisation is £5.9m.

LED Investment Programme

37. As part of the Contract Modernisation the core specification was amended so the authority could benefit from the advancements in the LED street lighting market. Since January 2013 the price of LED street lights has gradually declined and they are now the standard product to be procured for illuminating the highway. As of August 2020, we had over 17,000 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, the development of an LED invest to save project was being progressed for implementation whilst maintaining the overarching benefits of the PFI contract.
38. Following a detailed assessment and protracted discussions with the PFI contractor and SCC's legal team a programme to replace over 47,000 lanterns with energy efficient LED equivalents finally commenced in April 2021.
39. Funding for the project will be in the form of an interest free loan from Salix. Salix provides interest-free Government funding to the public sector to improve their energy efficiency. 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.
40. Formal agreements were completed in January 2021 and installation works commenced in March 2021 against a four-year delivery programme. As of August 2021, 5,200 lanterns had been upgraded to

LED units generating savings of £152k per annum in reduced energy costs.

Energy Procurement

41. Energy for highway electrical assets is currently procured through the procurement organisation Crown Commercial Services via a framework contract for Energy Supply and Ancillary Services. Electricity volumes are procured in advance from the wholesale market using experienced traders who monitor the energy market. Crown Commercial Services consistently achieve below average market energy costs due to their procurement strategy.
42. In October 2019 all highway electricity supply arrangements were converted to renewable energy supplies resulting with zero carbon emissions from this date. Prior to this arrangement the Council's emissions for street lighting assets generated circa. 8,000 tCO₂ per annum.
43. The price of energy is currently a major concern for the business sector due to the volatility of the energy market. Assessment of our current approach to procurement has put the authority in a comfortable position in terms of the associated risks for increased energy prices over the next 12 months. The energy market will be closely monitored over the coming months against our chosen procurement strategy.

Link to Strategic Plan

Infrastructure+ is aligned to "Leading for a Connected Staffordshire" as set out in Appendix 1.

Link to Other Overview and Scrutiny Activity

Highway Infrastructure Asset Management Plan (HIAMP)

List of Background Documents/Appendices:

- Appendix 1 – Infrastructure Plus Outcomes 2021
- Appendix 2 – Infrastructure Plus Performance Management Roadmap
- Appendix 3 – Infrastructure Plus Performance Report September 2021
- Appendix 4 – Lighting for Staffordshire Progress Report #220 August 2021
- Appendix 5 – Lighting for Staffordshire Annual Service Report 2020/21

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