



SHEFFIELD CITY COUNCIL

Development, Environment and Leisure Directorate

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REPORT TO	DATE
CULTURE ECONOMY AND SUSTAINABILITY SCRUTINY AND POLICY DEVELOPMENT BOARD	6 October 2009

REPORT OF THE DIRECTOR OF DEVELOPMENT, ENVIRONMENT AND LEISURE	ITEM
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SUBJECT: UPDATE ON THE HIGHWAY MAINTENANCE PFI PROJECT

SUMMARY

The report provides the Culture, Economy and Sustainability Scrutiny Board with an update on the progress of all aspects of the Highway Maintenance PFI Project.

RECOMMENDATIONS: That Members note the content of the Report

FINANCIAL IMPLICATIONS	NO	PARAGRAPHS
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CLEARED BY

BACKGROUND PAPERS

Report on the Highway Maintenance PFI Project to Cabinet on 10th September 2008

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AREA(S) AFFECTED

All areas of the City

	CATEGORY OF REPORT OPEN Paragraph(s)
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**UPDATE ON THE HIGHWAY MAINTENANCE PFI PROJECT
SEPTEMBER 2009**

1 PURPOSE

- 1.1 To provide the Culture, Economy and Sustainability Scrutiny Board with an update on the progress of the Highway Maintenance PFI Project.

2 INTRODUCTION

- 2.1 In July 2006, the Council approved the completion and submission of an Expression of Interest (EoI) for Highway Maintenance PFI Scheme and, in the event that the EoI was successful, the preparation of an Outline Business Case (OBC) for the scheme.
- 2.2 In March 2008, following the submission of an updated EoI proposal, the Council was selected by the Department for Transport (DfT) as one of three Highway Maintenance Pathfinder Authorities and invited to submit an OBC in respect of its proposed Highway Maintenance PFI Project (the Project).
- 2.3 Following approval of the scope of the Project and confirmation of the Council's financial commitment to the Project by full Council in October 2008, the Council submitted its OBC to the DfT in November 2008 requested PFI Credits in the sum of £674.1million. In March 2009, the Council received approval for the full amount of PFI Credits requested and were authorised to proceed with the Project by the DfT.

3 UPDATE ON THE INDICATIVE PROJECT TIMETABLE

- 3.1 The report to Cabinet in September 2008 (the September Cabinet Report), which was subsequently referred to, and approved by, full Council in October 2008, set out an indicative Project Timetable which envisaged the DfT approving the Project in January 2009, and the procurement process for the Project commencing with the placing of an OJEU Notice in February 2009.
- 3.2 As the DfT's approval of the Project was not received until the end of March 2009, the indicative Project timetable envisaged in the September Cabinet Report required amendment. The OJEU Notice which marks the start of the procurement process was placed in April 2009 and this delay of two months from the date envisaged in the September Cabinet Report meant a "knock-on effect" on the remaining timetable. In addition, as will be seen in paragraph 4.2 of this Report, it has not been necessary to undertake an Outline Solutions Stage to the Competitive Dialogue procurement process being utilised by the Council and so a further adjustment to the timetable has been approved by the Project Sponsor, John Mothersole, under the powers delegated to him by the September Cabinet Report.
- 3.3 A revised indicative Project timetable is set out below:

Indicative Project Timetable

Invitation to Submit Detailed Solutions and Participate in Dialogue	w/c 13 July 2009
Bidders Preliminary Dialogue Meetings and Visit to Olive Grove Depot	20 – 23 July 2009
Competitive Dialogue meetings	Fortnightly meeting commencing w/c 17 August 2009 and continuing until w/c 23 November 2009
Submission of Detailed Solutions	17 December 2009
Christmas Break	21 December 2009 – 01 January 2010
Evaluation of Detailed Solutions including up to 3 clarification meetings with Bidders	04 January – 26 March 2010
Project Sponsor Approval for Shortlist of Bidders	16 April 2010
Issue Invitation to Submit Refined Solutions	19 April 2010
Competitive Dialogue meetings	Fortnightly meeting commencing w/c 26 April 2010 and continuing until w/c 28 June 2010
Submission of Refined Solutions	15 July 2010
Evaluation of Refined Solutions including up to 2 meetings with Bidders	19 July – 24 September 2010
Approval of Derogations and Final Dialogue	27 September – 05 November 2010
Dialogue Closed and Call for Final Tenders	19 November 2010
Final Tenders Submitted	16 December 2010
Christmas Break	20 – 31 December 2010
Evaluation of Final Tenders	03 January – 29 January 2011
Preferred Bidder Appointed	23 February 2011
Confirm Commitments, final due diligence and	28 February – 22 April 2011

approvals with Preferred Bidder	
Commercial Close	May 2011
Financial Close	June 2011
Contract Start	August 2011

It should be noted that although the dates within the indicative Project Timetable have changed to reflect the changes in circumstances, the proposed start date of the Contract remains at August 2011.

4 UPDATE OF THE ACHIEVEMENTS AGAINST THE INDICATIVE PROJECT TIMETABLE

4.1 Following the placing of the OJEU Notice in April 2009, the Council held a Bidder Information Day to introduce the potential contractors, funders and advisers to the Highway Maintenance Project. The event was well attended and very well received by the market.

4.2 In response to the OJEU Notice, the Council evaluated the Prequalification Submissions (PQQs) received and selected three bidders to go forward to the next round of the procurement process. The Council had intended to use the Outline Solutions Stage of the Competitive Dialogue procurement process to establish each Bidder's approach to the provision of services to be delivered under the Project and to deselect bidders so as to take a manageable number of bidders through to the Detailed Solutions Stage of the procurement process. As the number of Bidders submitting PQQs was limited, the Project Delivery Team recommended to the Project Sponsor that he exercise his delegated powers and approve the omission of the Outline Solutions stage of the procurement process. This approval was obtained and, as a consequence, the Bidders selected move straight to the Detailed Solutions stage of the procurement process as outlined in the above indicative timetable.

4.3 The Bidders selected to take part in the procurement process are:

- Amey;
- A consortium led by Carillion, and;
- A consortium lead by Colas

and an Invitation to Submit Detailed Solutions and Participate in Dialogue was issued to them in July.

4.4 Following the issue of the Invitation to Submit Detailed Solutions and Participate in Dialogue, a Preliminary Dialogue Meeting was held with Bidders in July, followed by a visit to the Olive Grove Depot. A full day training session has also been held for each Bidder on the use of the Carriageway and Footway Condition Models developed by the Council to measure the condition of the City's carriageways and footways. The Dialogue process then opened in August with meetings to discuss ways in which the Project may be funded.

4.5 As set out in the Indicative Project Timetable, a series of 7 all day dialogue meetings are being held with each of the Bidders on a fortnightly basis up to November 2009, following which Bidders will submit, in December 2009, submit their Detailed Solutions in respect of the Project.

- 4.6 Following the submission of Bidder's Detailed Solutions, a thorough and rigorous evaluation process will be undertaken to assess all aspect of the Bidders proposals for the delivery of the Services required under the Contract. It is likely that following the evaluation of the Bidders Detailed Solutions, one of the Bidders will be de-selected and the two remaining Bidders will be invited to submit Refined Solutions in respect of the Project. The Council has, however, reserved the right to invite all three Bidders to submit Refined Solutions if it is deemed to be in the interests of the procurement process to do so.
- 4.7 The process to be followed for the Refined Solutions Stage of the Project is very similar to that outlined above for the Detailed Solutions Stage with fortnightly dialogue meetings being held with Bidders culminating with the submission of Refined Solutions in July 2010. Following the evaluation of the Refined Solutions, the Council will, if it is satisfied that Bidder's Solutions are fully developed (i.e. where there are not any material aspects of the Solution which will need to be negotiated further), call for the submission of Final Tenders.
- 4.8 Following the evaluation of Final Tenders, the Council will select its Preferred Bidder to deliver the services required under the Highway Maintenance Project. It is currently scheduled that Preferred Bidder will be selected in February 2009. There will then follow a two month period during which the Preferred Bidder will carry out its final due diligence prior to the Project reaching Financial Close in June 2011 and the Contract commencing in August 2011.

5. **UPDATE ON OTHER ASPECTS OF THE PROJECT**

5.1 **Scope**

- 5.1.1 The scope of services to be included Project was approved by the September Cabinet Report. An outline of the Core activities which fall within scope and the Non-Core activities that fall outside of scope of the Project is attached at Appendix 1.
- 5.1.2 The only change to the scope of the Project as it was included in the September Cabinet Report is that the cleaning of public toilets has since been excluded from the Project. The majority of public toilets are not sited on the public highway and, for this reason, the cleaning of these toilets has been included within the scope of the Public Realm Maintenance project, which has been set up to consider alternative ways of delivering environmental services to non-highways land.

5.2 **Evaluation Methodology**

- 5.2.1 The September Cabinet Report approved the Evaluation Methodology for the Project as being:

Technical Proposals	50%
Legal and Commercial Proposals	30%
Financial Proposals	20%

However, following further detailed discussions between the leaders of each of the Evaluation Teams, it was agreed that it would be more appropriate for the evaluation of Bidders proposals for the operation of the Payment Mechanism for the Project to be evaluated under Financial Proposals rather than Legal and Commercial Proposals as has been intended at the time of the September Cabinet Report. For this reason, the Evaluation Methodology has been amended as follows:

Technical Proposals	50%
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Legal and Commercial Proposals 25%

Financial Proposals 25%

and this change to the proposed weightings of the three criteria has been approved by the Project Sponsor under the powers delegated to him in the September Cabinet Report.

5.3 **Communications**

5.3.1 The September Cabinet Report included proposals for the appointment of a Communication and Consultation officer to lead the Communications Workstream of the Project. A key function of this role is to brief, consult and liaise with stakeholders on the development and progress of the Project and on how the Project will affect them, and to ensure stakeholder are properly informed of the outcomes and benefits of the Project.

5.3.2 The post of Communication and Consultation Officer was recruited to in December 2008 and the current post holder has been in place since early January 2009. Key tasks undertaken by the Communication and Consultation Officer include developing and implementing a Communication Strategy for the Project and then continuing to monitor and review the Strategy as the Project progresses. Further tasks undertaken include ensuring that the Council's internet and intranet sites are kept updated in respect of the Project and ensuring that staff and other key stakeholders are aware of the Project's progress.

6 **UPDATE ON FINANCIAL ISSUES**

6.1 Since the September Cabinet Report there has been a significant change in the economic climate. This has impacted in two main areas in relation to the Project. The first being the position of banks and their approach to funding PFI Projects and secondly the impact on inflation assumptions.

6.2 Banks are seeking higher margins on lending to PFI Projects than had previously been assumed and are unwilling to commit to terms until the final stages of procurement. Underlying borrowing rates are lower than had previously been assumed but overall the cost of finance at current rates is marginally higher than previously modelled.

6.3 Current inflation on the other hand is lower than previously assumed and this has a positive impact on the base cost assumptions in the financial model.

6.4 Sensitivity modelling has been carried out on a number of scenarios to test the impact on affordability. This modelling has confirmed that there is no additional budgetary requirement to that approved in the Cabinet Report.

6.5 The Authority has set an affordability target for bidders at this stage of the procurement and has set the key financing terms on which Bidders should base their Bids. This is in line with HM Treasury guidance recently issued. In setting the affordability target the Authority has retained a contingency to deal with the economic uncertainties.

7 **UPDATE ON EQUAL OPPORTUNITIES ISSUES**

7.1 An Equalities Impact Assessment was carried out prior to the submission of the September Cabinet Report and the Action Plan developed to reflect the outcomes of the assessment is currently being implemented and monitored as the Project progresses.

8. **UPDATE ON ENVIRONMENTAL ISSUES**

- 8.1 The September Cabinet Report set out how Bidders for the Project will be made aware of the Council's commitment to environmental improvements and sustainability and how these aspects of the Bidders' proposals will be evaluated.
- 8.2 As part of the evaluation process, Bidders will be required to submit Method Statements outlining their proposals for minimising the amount of waste taken to landfill, proposals for the use of recycled or re-used materials and to bid back to the Council a Carbon Model Target for each year of the Contract. Financial deductions will be made to the payments due to the Contractor for failure to comply with Method Statements or if the targets included in the Carbon Model are exceeded.

9 **RECOMMENDATIONS**

- 9.1 That Members note the contents of this Report.

Author: Michael Platt

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Date: 18th September 2009