



SHEFFIELD CITY COUNCIL Cabinet Report

12

Report of: **THE CHIEF EXECUTIVE, THE EXECUTIVE DIRECTOR, PLACE, AND THE EXECUTIVE DIRECTOR OF RESOURCES**

Date: **9th November 2011**

Subject: **An update on the progress of the Highway Maintenance PFI Project**

Author of Report: **Michael Platt (36211)**

Summary:

This Report updates Members on the progress of the procurement of the Highway Maintenance PFI Project ("the Project").

The Report also describes and, where necessary, seeks Members' approval for:

- the revised scope of services to be included in the Project;
 - the future arrangements for the Council's services affected by the Project but which fall outside the scope of the PFI contract;
 - the procurement strategy and timescales for the remaining stages of the Project;
 - the transition arrangements between Street Force and the new Service Provider;
 - the proposed client arrangements for the management of the contract;
 - the financial and other resources required to deliver the Project (including, in particular, the procurement costs and the additional budget contribution to fund the ongoing operational costs); the delegations required to take the Project through to contract award; and
 - the statutory functions of the Council, which it is proposed that the Service Provider should exercise in order to aid the delivery of the services in the Project.
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Reasons for Recommendations:

(Reports should include a statement of the reasons for the decisions proposed)

The reasons for the recommendations are set out in the Report at the following paragraphs 3.8; 4.6; 4.9; 6.8; 9.2; Section 10 generally and, in particular paragraph 10.6; 11.3; 12.6; and 12.13

Recommendations:

Members are recommended to:

- Welcome the revised conditional award by the DfT of PFI funding of £1.21bn for the Highway Maintenance PFI Project;
 - Approve the revised scope of services to be included in the PFI contract as set out in section 4 of this Report;
 - Approve the revisions to the Procurement Timetable, as set out in section 6.8 of this Report;
 - Extend the delegations to the Project Sponsor approved in the 2008 Report to include the approval of the selection of the Preferred Bidder, in consultation with the Cabinet Members for Environment and Transport and for Finance;
 - Approve the financial revenue commitments to the Project set out in section 10 of this Report on the understanding that this will commit their inclusion in the budget for 2012/13 and beyond;
 - Approve, in principle, the use of capital contributions of up to £100m, to be funded from prudential borrowing and authorise the Project Sponsor, in consultation with the Cabinet Member for Finance, to commit final approval, and to agree the terms and conditions, including the amounts and timing, of such Capital Contributions;
 - Approve additional procurement resources of £1.6m, to be funded from Reserves;
 - Approve the recommendation that the Service Provider for the Highway Maintenance PFI Project be authorised to carry out the statutory functions set out in section 12.6 of this Report;
 - Approve the recommendation that the power to certify contracts that require certification under the Local Government (Contracts) Act 1997 be delegated to the statutory section 151 officer of the Council, or her statutorily authorised nominee as referred to in section 12.13 of this Report.
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Background Papers: NONE

Category of Report: OPEN

Statutory and Council Policy Checklist

Financial Implications
YES Cleared by: David Belton
Legal Implications
YES Cleared by: Gillian Duckworth
Equality of Opportunity Implications
YES Cleared by: Sue Millington
Tackling Health Inequalities Implications
NO
Human rights Implications
NO
Environmental and Sustainability implications
YES
Economic impact
YES
Community safety implications
YES
Human resources implications
YES
Property implications
YES
Area(s) affected
ALL
Relevant Cabinet Portfolio Leader
Cllr Bramall - Environment and Transport
Relevant Scrutiny Committee if decision called in
Economic and Environmental Wellbeing Scrutiny Committee
Is the item a matter which is reserved for approval by the City Council?
NO
Press release
YES

CABINET MEETING - 9 NOVEMBER 2011

HIGHWAY MAINTENANCE PFI PROJECT

REPORT OF THE CHIEF EXECUTIVE, THE EXECUTIVE DIRECTOR, PLACE, AND THE EXECUTIVE DIRECTOR, RESOURCES

1.0 PURPOSE OF REPORT

- 1.1 This Report updates Members on the progress of the procurement of the Highway Maintenance PFI Project ("the Project").
- 1.2 The Report also describes and, where necessary, seeks Members' approval for:
 - the revised scope of services to be included in the Project;
 - the future arrangements for the Council's services affected by the Project but which fall outside the scope of the PFI contract;
 - the procurement strategy and timescales for the remaining stages of the Project;
 - the transition arrangements between Street Force and the new Service Provider;
 - the proposed client arrangements for the management of the contract;
 - the financial and other resources required to deliver the Project (including, in particular, the procurement costs and the additional budget contribution to fund the ongoing operational costs); the delegations required to take the Project through to contract award; and
 - the statutory functions of the Council, which it is proposed that the Service Provider should exercise in order to aid the delivery of the services in the Project.

2.0 BACKGROUND TO REPORT

- 2.1 In February 2006, the Department for Transport ("DfT") wrote to all Local Authorities inviting them to submit an Expression of Interest ("EoI") if they wished to pursue a Highway Maintenance PFI scheme.
- 2.2 The Council approved the development of the Project in July 2006 and an EoI, incorporating a bid for Private Finance Initiative ("PFI") funding, was submitted to the DfT in September 2006. This was subsequently updated in February 2008 at the DfT's request.
- 2.3 The Project developed by the Council had the following objectives:
 - to provide a step-change in the condition of the City's roads within five to seven years from the start of the contract, and sustain that improvement over the remainder of the contract so that the highways remain fit for purpose;
 - to make the City's streetscene more welcoming and more widely used;

- to ensure safe passage including public and personal safety, and improve road safety, including reducing road accidents;
 - to encourage greater access to and increased usage of public transport;
 - to reduce crime and the fear of crime;
 - to reduce vehicle maintenance and fuel costs; and
 - to reduce the number and value of liability claims from trips and slips.
- 2.4 In March 2008 the DfT provisionally awarded the Council PFI Credits of £663.8m for the Project, subject to approval of the Council's Outline Business Case ("OBC").
- 2.5 A report ("the 2008 report") was taken to Cabinet in September 2008, and to full Council in October 2008, and Cabinet and Council approved:
- the scope of the Project;
 - the procurement strategy, timetable and evaluation methodology for the Project;
 - the funding commitments to the Project;
 - the procurement resources required to deliver the Project; and
 - the delegations necessary to take the Project forward through the procurement process.

3.0 PROGRESS OF THE PROCUREMENT OF THE PROJECT SINCE 2008 REPORT

- 3.1 In September 2008, 4Ps (now Local Partnerships) conducted a Gateway 1 Review on behalf of the Project Sponsor, the recommendations of which were incorporated, as necessary, into the OBC.
- 3.2 The OBC was submitted in November 2008 and requested PFI Credits of £674.1m, an increase of £10.3m from the EoI, following a thorough review of the Affordability Model for the Project.
- 3.3 In March 2009, following the endorsement of the Project by the DfT and HM Treasury, the Council was awarded PFI Credits of the full amount requested in the OBC and approval was received for the Project to proceed to procurement.
- 3.4 In April 2009, following a successful external; Gateway 2 Review of the Project, the Council placed an advertisement for the PFI contract in the Official Journal of the European Union ("OJEU"). The OJEU Notice invited organisations interested in bidding for the Project to submit a Pre-Qualification Questionnaire ("PQQ") by 28 May 2009.
- 3.5 Following evaluation of the submitted PQQs, three organisations were shortlisted and, in July 2009, were invited to submit their Detailed Solutions for the delivery of the Project. The organisations selected were Amey (UK) plc, a consortium lead by Carillion plc and a consortium lead by Colas Ltd.

- 3.6 In April 2010, each of these organisations submitted their Detailed Solutions and, following evaluation of these solutions, Amey (UK) plc (“Amey”) and the consortium lead by Carillion plc (“CarillionMouchel”) were selected to go through to the next stage of the procurement process and invited to submit their Refined Solutions for the Project.
- 3.7 During the Dialogue phase of the Refined Solutions stage, it became evident that the Bidders required additional time to prepare for submission of their bids in view of the necessary extent and complexity of the Council’s requirements. An extension of time was granted for this, as a consequence of which, the estimated Service Commencement Date was revised from August 2011 to November 2011.
- 3.8 In November 2010, following the Comprehensive Spending Review (“CSR”), the DfT asked the Council to review the affordability of the Project to the DfT. In December 2010, the Council submitted its proposals to the DfT and, in March 2011, the Council reached agreement with the DfT to a revised PFI funding level of £1.21bn in cash terms, a 3.6% reduction on the previous cash amount of £1.25bn. This revised funding is subject to approval of the Final Business Case (“FBC”) for the Project and to the Council’s compliance with a number of additional conditions relating to the sharing with the DfT of any savings achieved at financial close, any deductions made for failure to achieve milestones and any gains arising from re-financing.
- 3.9 Unlike the previous funding award, which was by way of a fixed annuity amount of £50m per annum, the revised settlement has lower amounts across the first three years, stepping up to a fixed annual amount of £49m from year 4 onwards. It should be noted that, following a change in 2010, Central Government funding support for PFI Projects is no longer designated in terms of PFI Credits.
- 3.10 As a result of the time required for: the Council to respond to the DfT’s request for a review of the Project; the negotiations between the DfT and the Council on the revised level of funding; the need to document the savings in the Council’s requirements as contained in the tender documents; and the time required for the Bidders to respond to these changes, it was necessary to put back the start date for the Project from November 2011 to April 2012.
- 3.11 Following the agreement with the DfT on revised Central Government funding levels, the Council reviewed and revised the level of its own financial support to the Project with overall reductions broadly proportional to the reductions in DfT funding.
- 3.12 As a consequence of the revised funding levels and the changes to the Council’s requirements necessary to achieve the savings, the Council reviewed the affordability target it had set for the Bidders and set a revised lower target which the Bidders were required to achieve while delivering the revised service requirements for the Project.

- 3.13 Although changes have been made to the Council's requirements in order to achieve the savings necessary to be able to deliver the Project within the revised funding levels, the Project objectives outlined in section 2.3 above remain unchanged, as no material changes were made to either the scope of Services or the intended look and feel of the Project.
- 3.14 The two Bidders for the Project submitted their Refined Solutions on 26 July 2011 in response to the revised Council requirements and funding levels. These have been evaluated against the approved Evaluation Criteria, and the outcome of the evaluation process will be used to guide Amey and CarillionMouchel as to where further development of their proposals is required.
- 3.15 Neither Bidder has been eliminated at the Refined Stage. However, the feedback from the Evaluation Teams has, however, indicated that there remain a number of areas which require further detailed discussions with each of the Bidders. Given the level of detail required to ensure that the Council has full confidence in all aspects of the Bidders' solutions, it has been necessary to build additional time into the next stage of the Dialogue process to ensure that the Final Tenders submitted by the Bidders comply with all aspects of the Council's requirements. Consequently, the date for submission of Final Tenders has now changed from November to December 2011 and the impact of this is that Contract Commencement will be in the period April-June 2012 (see section 6 below).

4.0 SCOPE OF SERVICES INCLUDED IN THE PROJECT

- 4.1 The Council's vision for the Project, as set out in the 2008 Report, is for a holistic and co-ordinated approach to Highway Maintenance throughout the City, aiming to create user perceptions of a seamless service, and to restore the streetscene to a quality which meets the Council's aspirations. This vision remains unchanged.
- 4.2 Based on the Council's vision, the Project continues to be City-wide, and includes all adopted roads, encompasses all forms of highway maintenance, and extends to a "fence-to-fence" approach. This approach to the scope of the Project facilitates the meeting of the Project objectives, reduces interfaces and thereby helps to maximise value for money.
- 4.3 The scope of the Project remains, in the vast part, unchanged from that approved in the 2008 Report.
- 4.4 The services included in the contract comprise Core Services, to be paid for through a Unitary Charge, and Non-Core Services, which will be available from the Service Provider as and when requested and for which separate and additional payment will be made.
- 4.5 The Core services are set out in Appendix 1 and may be summarised as follows:

The rehabilitation and maintenance of:

- Carriageways and footways (including drainage);
- Bridges and other structures;
- Streetlighting and signs;
- Traffic signals; and
- Miscellaneous assets;

together with the following services:

- Highway defects and emergencies;
- Grounds and tree maintenance;
- Winter maintenance;
- Street cleaning; and
- Strategic assistance.

4.6 Since the 2008 Report, the only changes to the scope of the Core Services have been:

- the removal of the cleaning and maintenance of highway toilets (see section 5.2 below).
- the inclusion of the Fabrication Shop within the Core Services (previously a separate business opportunity, along with the Concrete Plant).

These changes are highlighted in bold italics within Appendix 1.

4.7 The Council's key requirements for the delivery of Core Services are now fully embodied in a specification which details, in output terms, what the Service Provider will be required to provide and achieve. Payment will be closely related to outputs and the Output Specification is backed by a Payment Mechanism which specifies the response and rectification times allowed to the Service Provider for the correction of failures. The Payment Mechanism provides for the Council to apply financial deductions, by way of liquidated damages, if those time periods are not met.

4.8 Non-Core Services are those which the Service Provider will only be required to provide as and when requested by the Council. These are not covered by the Unitary Charge and additional payment will be made for those services as and when they are delivered. Non-Core Services include a wide range of works and services related to, but not central to, the key Project obligation of refurbishing and maintaining the highway network – see Appendix 1.

4.9 Since the scope of Non-Core Services was approved by the 2008 Report, the scope of design and build services has been extended to include Off Highway schemes. Again, this change is shown highlighted in bold italics within Appendix 1

4.10 It is intended that individual requests for Non-Core Services would normally be limited to the levels at which separate public procurement would be required under OJEU regulations. These limits are currently £3.9m for Construction works and £156,000 for Design services.

5.0 THE FUTURE ARRANGEMENTS FOR THE COUNCIL'S SERVICES AFFECTED BY THE PROJECT BUT WHICH FALL OUTSIDE THE SCOPE OF THE PFI CONTRACT

- 5.1 The September 2008 Cabinet report set out the proposed approach for the future delivery of environmental maintenance (such as grass cutting and cleaning of non-highway land). These services were, at the time of the 2008 Report, being delivered by Street Force but are outside the scope of the Highway Maintenance Project.
- 5.2 In 2009, a project was set up to review the future delivery of these services. As a consequence of this review, the responsibility of the delivery of the following services was transferred as set out below:
- Management and administration of abandoned vehicles – transferred to Waste Management Services in August 2010;
 - Removal of graffiti from buildings, utility boxes etc – transferred to the new Public Realm service (within the Parks and Countryside Service) in April 2011;
 - Cleaning and maintenance of public toilets – transferred to the new Public Realm service in April 2011;
 - Grounds Maintenance Off Highway (i.e. parks and open spaces) transferred to the new Public Realm service in April 2011;
 - Big Spring Clean and In-Bloom – transferred to the new Public Realm service in April 2011; and
 - Parking Services – transferred to Transport and Highways in July 2011.
- 5.3 The staff responsible for the delivery of these services transferred from Street Force to the service areas identified in section 5.2 above, and as a consequence, all of the staff currently within Street Force are carrying out services within the scope of the PFI contract and are expected to transfer to the Service Provider upon the commencement of the Highway Maintenance PFI Project.

6.0 THE PROCUREMENT STRATEGY AND TIMESCALES FOR THE REMAINING STAGES OF THE PROJECT

- 6.1 The report to Cabinet in July 2006, seeking approval for the development of the Project, recognised that PFI was the best route for achieving the Council's strategic objectives for maintaining the highway infrastructure.
- 6.2 Following approval of the Procurement Strategy for the Project by Cabinet in the 2008 Report and the approval of the OBC for the Project by the DfT, the Council commenced the process of procuring a Service Provider to deliver the highway maintenance service in April 2009 by the issue of an OJEU Notice.
- 6.3 The Council held a Bidders' Conference on 29 April 2009, attended by representatives from the highway maintenance services supply market, investment bankers, financial and legal advisers, local businesses and many

other industry-related organisations and at which the Council Leader, Chief Executive and members of the Highway PFI Project Team gave presentations. The event was well attended and very well received by all of the attendees and generated a good supply market awareness of the Project.

- 6.4 The Project is being procured under the Competitive Dialogue procurement process as regulated by the Public Contracts Regulations 2006. As such, the procurement comprises a pre-qualification stage followed by successive stages of bidding. The Competitive Dialogue process is reserved and required for the most technically, financially and legally complex projects, such as PFI Schemes. The multiple bidding stages comprise Detailed and Refined Solutions stages and a Final Tender stage, following which a Preferred Bidder is selected.
- 6.5 As noted in section 3.14 above, the Council received Refined Solutions from Bidders on 26 July 2011. These solutions have been evaluated and the Council is now undertaking the final Dialogue meetings with Bidders before a Call for Final Tenders is made. The final Dialogue meetings are being held to discuss those areas of a Bidder's solution which may be improved in order to better meet the Council's technical, legal and financial requirements. This stage of the procurement process is of significant importance, as it is the final opportunity for the Council to negotiate with Bidders whilst they are still in competition. When the Council closes the dialogue and calls for Final Tenders to be submitted, there is, under the Competitive Dialogue procurement process, very limited further opportunity for improvement or amendment of the Bidders' solutions, other than fine tuning.
- 6.6 It is currently intended that Final Tenders will be submitted by Bidders in December 2011 with a Preferred Bidder being selected in February 2012. Following the selection of a Preferred Bidder, there is a period of time allowed in the Project timetable for preparation and finalisation of documentation for Commercial and Financial close.
- 6.7 Each Bidder has agreed that, should they be chosen as Preferred Bidder, then they will immediately commence mobilisation to ensure that, following Commercial and Financial close, they will be able to meet the planned Service Commencement Date.
- 6.8 An overview of the procurement timetable to date and the key dates for the final stages of the Project are set out in the indicative Project timetable shown below:

Prior Information Notice placed in the OJEU	August 2008
Submission of OBC	October 2008
DfT and HM Treasury Approval	March 2009
OJEU Advert published	April 2009

Call for Detailed Solutions	July 2009
Submission of Detailed Solutions	April 2010
Call for Refined Solutions	July 2010
Submission of Refined Solutions	July 2011
Submission of Interim Final Business Case	October 2011
Submission of Final Tenders	December 2011
Selection of Preferred Bidder	February 2012
Submission of Final Business Case	February 2012
Commercial and Financial close	April 2012
Service Commencement	April-June 2012

- 6.9 All dates shown in the Project timetable after September 2011 are subject to timescales required (a) by the DfT for the approval of the Interim and Final Business Cases for the Project, and (b) for the completion of the commercial negotiations with the Bidders.
- 6.10 In accordance with project management best practice, Gateway Reviews are being undertaken at key stages of the Project. In September 2011, the Project underwent a Gateway 3 Review. This Review is concerned with the investment decision to be made by the Council and one of its key considerations was to assess the Council's readiness to close the dialogue and call for Final Tenders. The outcome of the Review was positive, with several areas of best practice being identified. A number of recommendations have been made by the Review Team, with a view to helping ensure the continued progress of the Project into its operational phase, but none of the recommendations impact on the ability of the Council to move forward into the next stage of the procurement process.

7.0 TRANSITION AND MOBILISATION

- 7.1 A number of the Project Team already have activities relating to the transition and mobilisation of the Highways Maintenance PFI Project as an integral part of their work-plans for the delivery of their particular areas of the Project. As much of this work is already on-going, rather than establishing a new Workstream activity within the Project to lead transition activity, a Transition and Mobilisation Sub-Group is being established within the Project Team to ensure the efficient and timely transfer of Highway Maintenance activities and employees to the selected Service Provider.
- 7.2 The Transition and Mobilisation Sub-Group is to be lead by the Project Manager for the Highway Maintenance Project who will ensure that the work

to be undertaken by the Sub-Group and its timing do not have a negative impact on the delivery of the overall Project timetable.

- 7.3 The Sub-Group is made up of representatives from various areas across the Council including:
- Business Information Solutions - To ensure the smooth and efficient transition of Council systems and data to the Preferred Bidder so as to allow the timely commencement of all Management Information System activity on the Services Commencement Date;
 - Customer First - To ensure that both the Customer First Service and the Preferred Bidder have appropriate systems and processes in place to enable customer services to be delivered in accordance with the Customer Experience Performance Requirements of the Highway Maintenance Project;
 - Street Force - To ensure that processes are in place to allow the orderly transfer and wind down of Street Force business upon commencement of Highway Maintenance Contract;
 - Commercial Services - To ensure that an appropriate team is in place to undertake all required Client functions including contract management processes and processes for the monitoring and reporting of Service Provider performance;
 - Transport and Highways - To ensure that adequate traffic management and other arrangements are in place to support the Service Provider's Programme of Works upon the Services Commencement Date;
 - Communications - To use a variety of appropriate Communications tools to ensure that all stakeholders are aware of the transfer of Highway Maintenance activity from Street Force to the Service Provider;
 - Human Resources - To ensure that all appropriate TUPE consultation and other related activities are undertaken to allow for the proper and efficient transfer of staff from the Council to the Highway Maintenance Service Provider.
- 7.4 The work and progress of this Sub-Group will be reported to the Highway Maintenance Project Board.
- 7.5 Once the Preferred Bidder for the contract has been selected, they will immediately commence mobilisation activities in order to ensure a timely transfer of services and employees on the Services Commencement Date.
- 7.6 The Council's mobilisation requirements for the Preferred Bidder are set out in the Tender Documents for the Highway Maintenance Project and each of the Bidders has provided a detailed Method Statement setting out how they intend to undertake all aspects of mobilisation activity.
- 7.7 Once the Preferred Bidder has been selected, a Transition Board will, in accordance with Intelligent Client principles, be established. The Transition Board is a temporary organisation established to oversee the transfer of

service to the Service Provider. The primary objectives and functions of this Board are to:

- ensure that there is an agreed integrated transition plan which seeks to achieve hand over at the earliest opportunity but at the same time carefully managing risk;
- manage the implementation of the transition plan ensuring that necessary resources are in place, milestones are achieved and issues, conflicts etc are quickly resolved;
- ensure that plans are appropriately communicated to all stakeholders and at all levels so that there is clarity of the changes and new responsibilities; and
- ensure that all staff TUPE transfers are progressed in partnership with the Trades Unions following recommended best practice, including an oversight of incumbent to new partner secondary TUPE transfer arrangements.

7.8 Representatives on the Transition Board will include the Highway Maintenance Project Director, the Director of Street Force and representation from the Preferred Bidder, as well as the new Head of Highway Infrastructure to be appointed to lead the Service Client team – see section 8 below.

8.0 PROPOSED CLIENT ARRANGEMENTS

- 8.1 The Highway Maintenance Project is a key element of the Council's strategy for improvement and regeneration of the City. The transition from direct delivery by the Council of Highway Maintenance services to delivery of these services through a contract represents a major change which needs careful planning and detailed implementation. Although the day-to-day delivery of the service will be the responsibility of the Service Provider, the Council will retain the important roles of managing the service to ensure that contractual obligations are met and service delivery maintained at a high standard. This role will be carried out by a new Client Team which will also have responsibility for the strategic direction of the service, change management and the monitoring of Service Delivery and Benefit Realisation.
- 8.2 As a result of the current configuration of Transport and Highways and Street Force, there is, at present, a very limited Client Function within Transport and Highways with most of the traditional Client Functions being carried out at the Contractor level within Street Force. These Client Functions are spread amongst a number of staff whose principal duties are mainly focused on Contractor functions, and consequently it is expected that, in general, such staff will transfer to the Service Provider and not be available to form a nucleus of a Client Function. It will therefore be necessary to develop a suitable Client Function within Transport and Highways to manage the PFI Contract.
- 8.3 As with all PFI Contracts, the Project is based on the principle of self-monitoring of the services to be delivered by the Service Provider using robust monitoring and reporting systems and with limited but focused levels

of checking for compliance by the Client Team. The Client Function Model has taken these into account and has been built up from a detailed analysis of the Council's obligations in the Contract and matching these to appropriate job roles.

- 8.4 The size of the client function will be based around industry standard recommendations and will be divided between technical assurance and performance management and charged with ensuring that the Council only pays for work and services which have been completed to the standards specified in the contract. For the reasons set out in 8.2 above, there is likely to be a significantly greater Client Function than the current establishment and the team's structure will reflect the complex nature of the Contract and take account of lessons learned from previous Council contracts and practice in other Local Authorities. The size of the team will, however, be kept to a minimum, and duplication between the Service Provider's monitoring of performance and the Client Team's overseeing of performance will be avoided, except so far as is necessary to validate the Service Provider's self-monitoring regime.
- 8.5 The Project has been designed to achieve high levels of public satisfaction with the City's Highways and Street Scene and this will be closely monitored alongside the technical management of the contract, as part of a rigorous Benefits Realisation Management process.
- 8.6 The Client Team for the Project is being developed in accordance with the Council's 'Operation of the Intelligent Client in Commercial Relationships' model and will comprise a Service Client Team, which will reside within Development Services of the Place portfolio, and a Contract Management Team, which will be part of the Commercial Services Strategic Contract Management Service. For reasons of efficiency, it is proposed that the two elements of the Client Team should be co-located.
- 8.7 The first task for the Client Team will be the setting up of systems, protocols and procedures, including document management systems and contract analysis. During the operational phase of the Project, the tasks within the total client function will include:
- performance monitoring, including the reviewing of baseline surveys, annual condition surveys, customer surveys and ongoing service delivery monitoring;
 - programme and works approval, including initial capital, ongoing lifecycle works, and Local Transport Plan ("LTP") and other non-programmed work approval and integration;
 - payment and deduction management, including payment mechanism issues, excusing causes and payment processing;
 - change management, including authority and contractor changes arising from regulatory and technical change;
 - emergency, standby, hand-back and retendering arrangements;
 - liaison and other contract meetings, including dispute resolution;
 - customer interface, including customer satisfaction surveys;

- governance, monitoring and reporting, including annual reviews and reporting on stewardship of the contract;
- budget management, including contract and client cost and client risk management;
- risk management and mitigation of those risks retained or shared by the Council;
- policy and strategy development and management, including benefits realisation and Key Performance Indicator monitoring;
- stakeholder management, including publicity, communications and complaints handling in partnership with the Service Provider, and Freedom of Information Act responses; and
- other commercial issues, including refinancing, termination issues, benchmarking and market-testing of soft services, energy and insurance procurement.

- 8.8 The Service Client Team will form part of the new Highway Infrastructure Service. For the more efficient delivery of the Council's Highway Maintenance Service, this will also include a number of complementary service areas to be transferred from the current Transport and Highways Service. These are Highway Development Control, Highway Adoptions and Highway Records. All other current Transport and Highway services will remain in a separate block, to be managed by the current Head of Transport and Highways. This will include the functions of the statutory Traffic Manager, whose role, although interfacing with the role of PFI Contract Management, needs to be kept separate in order to demonstrate parity of treatment between the Council's Highway Maintenance Contractor and the Statutory Undertakers in the allocation of permits and other rights to occupy the highway to carry out maintenance and other works.
- 8.9 Following a recent Service Review, the Transport and Highways Service is itself undergoing an Achieving Change process, which, along with the establishment of the new Highway Infrastructure Service, is being conducted in accordance with Council processes for implementing change, including full consultation with staff.
- 8.10 The Service Client Team is to be led by a Head of the Highway Infrastructure, who will be the Council's nominated Representative under the Contract. The recruitment process for this post is currently underway and it is expected that the successful candidate will commence employment with the Council early in 2012. The appointment is being made on a Senior Management grade, one of two posts at Senior Management level required for the management of this Contract. A high level of both technical and commercial experience is essential for the management of the delivery of the Council's Highway Infrastructure Service through the PFI Contract. Once the Contract is let, the number of Director grade posts within Place will reduce by two and there will be a further reduction of one from the Highway Project Team, resulting in a net reduction of one Director Grade post on the Council's establishment.

- 8.11 The Head of Highway Infrastructure will initially focus on: completing the recruitment process for the remainder of the Service Client Team; working with the Transition and Mobilisation Sub-Group – see section 7 above – to ensure the smooth and timely transition into the operational phase of the Contract; and working with Strategic Contract Management to develop the appropriate systems, procedures and protocols to ensure the effective management of the Contract.
- 8.12 The Service Client Team will itself be divided into a Technical Team and a Process Team, working alongside the complementary services of Adoptions, Highways Development Control, and Records. There will also be a small team of NEC Contract specialists to manage the Non-Core Services elements of the Contract. The Technical Team will consist of specialists and support posts, to manage such areas as programme review, scheme evaluation and service delivery. This team will provide the challenge to the Service Provider on technical matters, as well as providing assurance of Project delivery and quality through monitoring the Service Provider's activities and progress of the Highway improvements as reported by the Service Provider. The Process Team will work with Strategic Contract Management to ensure that the processes necessary to manage all elements of the Contract are in place and progressed efficiently and effectively, including all Review Procedures, Performance Monitoring and Payment.
- 8.13 The responsibility for recruiting to the new posts required within the Strategic Contract Management Service lies with that team.
- 8.14 The budget for the Client Team will include all direct and indirect overheads and an allowance for a level of specialist internal and external advice. Provisions for the costs of the Client Team have been included within the Affordability Model for the Project.
- 8.15 The Client structure will be reviewed regularly throughout the duration of the Contract. Following the completion of the Core Investment Period, ("CIP"), the period of 5-7 years during which the main refurbishment of the network will take place, it is envisaged that it should be possible to manage the Contract with a leaner team. This will also be supported by the familiarity with processes, and hopefully by the development of a healthily respectful and challenging relationship with the Service Provider. It is, therefore, expected that the Client costs may be able to be reduced after the CIP.
- 8.16 Recruitment of the Client Team will be undertaken in advance of the start of the operational phase of the Contract so that most, if not all, of the Team will be in place by the Service Commencement Date. Budget provision has been made for the costs of this pre-contract recruitment.

9.0 FUTURE DECISIONS AND DELEGATIONS

- 9.1 In view of the time-critical decisions which have to be made throughout the procurement of major PFI projects, Members agreed in the 2008 Report, in line with their decisions on previous large and complex projects, to delegate

authority for certain decisions to a senior officer or officers of the Council, in consultation, where applicable, with appropriate Cabinet Members.

- 9.2 At the time of the 2008 Report, it was envisaged that a further report would be brought to Cabinet prior to the selection of Preferred Bidder. However, given the difficulties in predicting the exact timing of this selection and in order to preserve the full confidentiality and integrity of the procurement process, it is now proposed that this decision also should be delegated to the Project Sponsor, in consultation with the Cabinet Members for Environment and Transport and for Finance. Such delegation is provided for under the Council's revised constitution.

10.0 FINANCIAL IMPLICATIONS

10.1 Central Government Funding

- 10.1.1 Prior to the CSR, Central Government funding for PFI Schemes was through the allocation of PFI Credits to those projects approved by the relevant Government Department. The PFI Credits headline figure was a notional capital amount, from which the annual grants were calculated. These grants were ring-fenced from the relevant Departments' revenue budgets and were administered by DCLG. The original provisional award of £671.4m of PFI Credits to the Sheffield Highway Maintenance PFI Project would have provided annual grants of around £50m for the 25-year period of the Project, totalling £1.25 billion in cash terms.
- 10.1.2 In 2010, this arrangement changed and those Departments wishing to support new local authority PFI projects now need to prioritise this grant funding from their own Resource Departmental Expenditure Limit ("RDEL") budgets.
- 10.1.3 As a result of the reductions in Central Government funding and the competing priorities within its RDEL, the DfT has sought, following the CSR in October 2010, to make savings from each of its committed PFI projects. As a result, the DfT asked the Council to review the affordability of the Project to the Department as set out in section 3.8 above.
- 10.1.4 The cost saving proposals agreed between the Council and the DfT in March 2011, included approval of specific revised funding, including reductions totalling £24m across the first three years of the Project, with a £1m per annum reduction from year four onwards. Overall, in cash terms, this amounts to a reduction in funding of £43m to £1.21bn, a saving of 3.6% on the previous cash figure of £1.25bn. This is a comparatively small reduction, and reflects the fact that very significant savings were made at earlier stages in the development of the Project.

- 10.1.5 Nevertheless, this still remains the largest award of PFI funding ever made for a local government project. The funding is all new money to the Council, except for an element representing LTP maintenance funding rolled up into the PFI funding. The PFI funding will be by way of specified annual grants, which are payable over the life of the PFI contract as an addition to the Council's revenue income, and subject to terms and conditions as summarised in section 3.8 above.

10.2 Council Funding

- 10.2.1 In September 2008, the Council approved funding commitments to the Project to match the PFI Credits requested at that time. The Council agreed to commit the Transport and Highways' annual budgets at that time of £27.1m to the Project and additional resources of £9.6m per annum (all at 2007/08 prices and subject to annual inflation increases at RPIx). Provision was also made in the Affordability Model for the expected cost of the retained functions (i.e. those which will not transfer to the Service Provider), the retained liabilities (such as for those outstanding insurance claims at the date of transfer), residual costs (i.e. those arising from contractual commitments which cannot be avoided) and an element of general contingency.
- 10.2.2 Applying annual inflation (as measured by RPIx) since 2008 to these commitments would give figures of £31.4m for the Transport and Highways budgets and £11.4m for the additional resources. However, due to the financial constraints on Council budgets, the Transport and Highways budgets have not, in recent years, risen in line with RPIx. The amount of additional funding required to deliver the Council's commitment to the Project from 2012/13, on the basis agreed in 2008, would therefore now be £13.8m, rather than £11.4m. This amount was included in the Medium Term Financial Strategy agreed by Cabinet on 13 July 2011, along with an inflation commitment of £1m a year in the initial years of the Project, rising to £2m a year in later years.
- 10.2.3 At the same time as the cost savings proposals were requested by the DfT, the Council also identified a number of additional pressures that it required the Project to absorb, including:
- eliminating interest on any internal cash balances arising from the difference in timing between funding receipts and outward payments;
 - increased provision of £1.3m a year for lost Street Force profit; and
 - increased provision for pension deficits for transferring Street Force staff following the Council pension re-valuation.
- 10.2.4 The costs savings identified as part of the review requested by the DfT were put forward on the basis that the benefit should be shared

between the Council and the DfT and, in so doing, the Council's share of the savings has been used to absorb the pressures identified in section 10.2.3 above.

10.3 Use of Funds

- 10.3.1 As previously reported to Cabinet, the combined PFI and Council funding will be used to cover not only the contract costs but also associated costs and liabilities. Each of these areas have been reviewed and revised in light of changing circumstances.
- 10.3.2 In light of the wider cuts to the Council's funding, the Project team has considered options to further reduce the resource requirements of the Project overall and, in particular, to minimise the early years' funding requirement. This could be achieved in a number of ways as set out in the following three sub-sections of this report;

10.4 Unitary Charge Savings

- 10.4.1 The Council will pay the Service Provider an annual Unitary Charge (the annual payments made to the Service Provider for the services delivered). This is an annual amount which is set so the Service Provider covers all of the costs of the initial capital expenditure, the lifecycle costs and the ongoing revenue expenditure, funding costs and return on investment, all of which must be delivered within the affordability target set by the Council.
- 10.4.2 The Bidders have been set a reduced affordability target and, in addition, have been asked to save a further 2%.

10.5 Level of budget commitment across the period of the contract across early years

- 10.5.1 Budgets had been assumed to be committed in full from the start of the contract. However, in the early years of the contract, payments to the Service Provider increase each year as milestones are achieved. If, therefore, the Council were to put in its full level of budgets in this early period, then this would have created reserves for the Council which could have been used in later years to contribute to the cost of the contract. Those reserves would have been invested and earned interest.
- 10.5.2 Alternatively, and given the current low rate of interest on deposits, the Council is able to reduce its budget commitment to match the finance required to pay the Service Provider. The Council will still contribute its current Highways budget of £28.5m, but, instead of an additional budget of £13.8m in 2012/13, the requirement will only be around £2m. The additional budget requirements will then increase each year by around £2-2½m (approx 6%), to 2022/3, and, thereafter, at around 3½% a year.

10.6 Capital Contribution

- 10.6.1 Because of the requirement to meet the large backlog of work during the first few years of the contract, the Service Provider will not, during those early years, receive sufficient income from the Unitary Charge to meet its costs and will therefore need to borrow to meet the shortfall between its cash income and cash expenditure. As is normal with PFI projects, this borrowing will be secured against future revenue streams of the Project, and will be repaid over the life of the Contract (less a short tail period) together with interest at a fixed rate to be established when the deal is signed. Total capital investment into the Project is estimated at around £300m.
- 10.6.2 As a further saving measure, the Council is proposing to borrow around £100m, through Prudential Borrowing. These Capital Contributions would be expected to be made in broadly equal instalments over the first five years of the contract as the key milestones of the capital improvements are met. Under PFI rules, 30% is the maximum can borrow so as to ensure that the Service Provider and their funders retain sufficient risk.
- 10.6.3 Making these Capital Contributions would reduce the borrowing requirement of the Service Provider to around £200m and the Contract Costs of funding that debt would reduce accordingly. In its place would be the Council's own cost of borrowing which is lower than the borrowing cost that the Service Provider would incur. This would reduce the overall budget commitment of the Council by approximately 4% (or, approx £50m over the life of the contract), during the life of the Contract, although most of the benefit is in the later years of the Contract, so that the early years' requirement does not change significantly from that set out above.
- 10.6.4 Taking into account a Capital Contribution of £100m, Council funding would be:
- 2012/13 incremental budget of approximately £2m;
 - Further step increases thereafter of approximately £2m p.a. to 2022/23, i.e. around 5%;
 - After 2022/23, increases of around 3% a year.
- 10.6.5 As the requirement to take into account Capital Contributions was not included in the instructions to Bidders for the Refined Solutions stage of the procurement process, the above figures are indicative and the final figures will be dependant upon the terms and conditions for the Capital Contributions to be agreed with the DfT and to be negotiated with the Bidders.

10.7 Other Payments

10.7.1 The Council will pay the Service Provider for the energy used by powered apparatus (including Streetlighting and Traffic Signals). Broadly speaking, the Service Provider will be at risk for the volume of energy used, with the tariff risk remaining with the Council. The energy will continue to be procured by the Council unless the Service Provider can provide a better price.

10.7.2 The funding envelope for the Project will also pay for:-

- functions retained by the Council, together with the cost of the Client function for the PFI contract;
- unfunded pension liabilities, Street Force trading surpluses and irrecoverable fixed overheads;
- retained liabilities for insurance claims relating to events prior to the Service Commencement Date and contributions to maintenance of Network Rail Bridges; and
- Project development costs of £10.9m as set out in section 11 below, incurred from the start of the Project up to the commencement of the contract.

10.8 Inflation Assumptions

10.8.1 As the Service Provider's costs will be partially fixed and partially subject to inflation, the Unitary Charge itself will be split between an indexed and an un-indexed element. The balance between the index and un-indexed elements will be established so as to minimise the Service Provider's overall exposure to inflation risk. This is expected to be at around 50-60% indexed, with the balance un-indexed.

10.8.2 Inflation of the indexed element of the Unitary Charge has been modelled at 2½% throughout the Contract. Members should note that the Central Government PFI Funding will be fixed in cash terms and that the Council's other funding lines cannot be assumed to increase automatically with inflation to cover the inflation-linked element of the contract payments leaving a potential long-term funding exposure should actual inflation be above that by which the Council's resources increase.

10.9 Basis of Affordability Assumptions

10.9.1 The above affordability analysis is on the basis of the Highway Network as it exists at the current time.

10.9.2 The contract includes mechanisms paying for additional highway assets and for pricing the ongoing maintenance effect of changes in the Highway Network during the term of the contract, whether through provision of additional assets, expansion of the network or incorporation of LTP funded schemes.

- 10.9.3 The Council will need to ensure that additional funding for such changes are identified and earmarked for expansion of the network, and promoters of schemes, such as LTP schemes, will need to provide for the revenue implications of those schemes in accordance with the recommendations in the Cabinet Highway Committee report on Commuted Sums dated October 2010.
- 10.9.4 Similarly, as Network Rail bridges are outside the scope of the contract, the Council will remain liable for any future cost of strengthening these, although financial provision has been made for the cost of known strengthening works.

11.0 THE RESOURCES REQUIRED TO DELIVER THE PROJECT

- 11.1 The development of a PFI project from its initial stages through to the signing of a contract is a long and resource-intensive process, especially for a Project as complex as a Highway Maintenance Project. Unlike the Council's previous PFI projects, this is in a new sector which is substantially untested and for which no standard documentation is yet available. In order to develop the documentation for the Project, including the Council's requirements, as embodied in an Output Specification, the Project has required significant input from internal staff within the Transport and Highways division, Street Force and Central Departments, and the use of external technical, legal, financial and other advisers.
- 11.2 The current approval for procurement costs, from the 2008 Report, is £9.3m. This was on the basis of the Project commencing in August 2011. For the reasons already stated, the Service Commencement Date is now likely to be in the period April-June 2012, as a result of the additional time granted to Bidders to complete their bids, the period required to undertake the DfT review and the time taken to implement the changes arising from this review.
- 11.3 The Project Team has estimated the net additional requirement for the Project Development Budget to complete the procurement in accordance with the revised completion date, at £1.6m. This re-forecast takes account of the costs incurred to date and the delays arising from the DfT cost savings review. This represents an increase in the Project development costs overall of 15%, but, even with this increase, the Project development costs still represent less than 1% of the total Project costs.
- 11.4 As with a number of previous PFI and similar Projects, the Project Development Budget is funded up to the start of the Contract from the Council's reserves.
- 11.5 Once the Project is completed and a contract is let, the expenditure on the Project Development Budget will be recovered from the project cash flows, over the first two years of the contract.
- 11.6 Many of the major risks to the delivery of the Project have already been overcome with the award and re-affirmation of PFI Funding. The remaining

hurdles are approval of the FBC and the satisfactory conclusion of the procurement. In the unlikely event of the Project failing to achieve either of these two hurdles, then the Project Development costs expended to the stage when the Project is abandoned will have to be met from the Council's own resources. This could be spread over a number of years in line with the Council's wider reserves strategy.

12.0 LEGAL IMPLICATIONS

12.1 The 2008 Report outlined the statutory powers that were being used by the Council in order to procure and contract for the services within the scope of the Project. These powers still remain applicable to the Project as it now stands.

12.2 However, there is one significant change, from a statutory power point of view, in the services which the Service Provider is now obliged to provide. During the Detailed and Refined Solutions stages of the Competitive Dialogue procedure, it became apparent that, in the interests of the efficient delivery of the Highway Services, there would be considerable merit in allowing the Service Provider to carry out certain functions on behalf of the Council which, in the 2008 Report, it was expected would be retained and performed by the Council.

12.3 The previous Cabinet report stated as follows:

"13.4 No formal delegation of functions is considered necessary to give effect to the proposed contractual arrangements, although some minor delegation may be required in respect of inspection of utility reinstatements."

12.4 To a large extent, this position has been adopted in the draft contractual documentation. If the Service Provider requests that the Council exercises a statutory function in order for it to provide the Services, but the Council does not exercise that function, then the Service Provider obtains relief from deductions for not providing that service.

12.5 However, it has become apparent that, for the more efficient delivery of the service, the Council should consider delegating certain of its powers to the Service Provider. Some alterations to the legal documentation to give effect to this have been made in relation to a limited number of the Council's statutory functions.

12.6 In particular, it is considered that it would be advantageous to allow the Service Provider to carry out these functions on behalf of (but not in substitution for) the Council. These powers are as follows:

- the removal or repositioning of skips on the highway pursuant to section 140 of the Highways Act 1980 or enforcement of the terms of a skip licence pursuant to section 139 of the Highways Act 1980;

- the removal of builders materials from a highway pursuant to section 171 of the Highways Act 1980;
- the issue of notices in respect of items deposited on the highway which are causing a nuisance and application thereafter for a court order for removal of such item, or the removal of such items which could reasonably be considered as causing a danger and which require to be removed without delay, pursuant to section 149 of the Highways Act 1980;
- the application for a court order to remove scaffolding on the highway pursuant to section 169 of the Highways Act 1980; and
- the service of a notice and the enforcement of the terms of such notice pursuant to section 115K of the Highways Act 1980 on operators of a facility for refreshment or recreation who have committed a breach of the terms of their permission issued pursuant to section 115E of the Highways Act 1980.

- 12.7 The reason it is considered to be advantageous to authorise the Service Provider to carry out these functions is that the Service Provider is better placed than the Council to determine when, and the extent to which, these functions should be carried out to enable it to deliver their programmes of Highway improvements. It would be inefficient for the Council to become involved in this process and would require the Council to retain additional resources to carry out these functions. Unless these retained resources were substantial, then there could also be a potential for the Council to be unable to respond to all requests from the Service Provider to carry out these functions, thereby leading to potentially extensive relief under the Contract for services not being provided. Under the new proposals, the Service Provider will be required to carry out the delegated functions in accordance with an agreed protocol, failure to adhere to which could result in the delegations being removed in whole or in part on a permanent or temporary basis. The Service Provider will also be required to report to the Council on the use of the protocol and the Council will, therefore, have the opportunity to monitor its use.
- 12.8 For the reasons outlined above, it is recommended that the Service Provider for the Project be authorised to carry out the statutory functions set out in section 12.6 above. Although this is a broadly agreed position between the Council and the two Bidders, it is possible that there could be minor alterations in the scope of these additional functions to be carried out by the Service Provider on behalf of the Council and any such changes would fall within the general delegation to the Project Sponsor.
- 12.9 Contractual documentation and protocols, including the Project Agreement itself, but also direct agreements with lenders and sub-contractors, pension agreements, property lease agreements, and a Business Transfer Agreement to cover transfer of the Street Force business to the Service Provider, have all been the subject of intensive discussion during the Detailed and Refined Solutions stages of the Competitive Dialogue process. Negotiations on these are now drawing to a close, with final terms to all of these documents to be agreed prior to the Call for Final Tenders, subject only

to fine-tuning at the Preferred Bidder stage. The capacity to agree to terms and conditions contained within all of the contractual documentation, including the risk allocation between the Service Provider and the Council, was delegated to the Project Sponsor in the 2008 Report.

12.10 Under the Contract with the Service Provider, there are a number of commercial, legal and financial risks that will remain with the Council. These risks have been retained on the principle of allocating risk to the party best able to manage that risk and hence to achieve best value for money. The key such areas are listed in the bullet points below:

- certain events of damage to assets (such as flooding, riot or vehicular impact to a bridge), where rectification of such damage would incur costs above a set financial limit;
- latent defects (being issues that could not be identified before Contract commencement) arising in certain Structures, where rectification of such latent defects would incur costs above a set financial limit;
- specific changes in law that affect the provision of the Services, and general changes in law, where, although the Service Provider carries all the revenue cost risk, as well as the capital cost risk until the end of CIP, thereafter, the capital cost risk is shared proportionally between the Council and the Service Provider depending on the amount of capital cost incurred;
- increases in insurance premia, with the Council taking a high proportion of the cost of the increase if premia increase more than 30% (though the Council would receive an equivalent rebate in the case of a reduction in cost);
- increases in Local Government Pension Scheme contributions, with the Council taking a proportion of the cost over a set percentage (though the Council takes the benefit if contributions fall below a set percentage);
- increases in energy tariffs (though increases in energy consumption are the Service Provider's risk and the Council receives some benefit from reductions in the volume of energy consumption);
- indexation of the indexed proportion of the Unitary Charge, where the amount payable to the Service Provider could result in increases in costs beyond the Council's own income inflation;
- certain warranties under the Business Transfer Agreement, given in relation to the business and assets transferred, which could give rise to claims for breach of warranty in the first few years of the Contract;
- certain indemnities given by the Council in the Contract, including those relating to employment claims in respect of TUPE-transferred employees arising before the date of transfer;
- certain Compensation Events, usually events under the control of the Council which lead to the Service Provider incurring extra cost, which the Council would then be required to pay for, and certain Excusing Causes where the Council continues to pay the Unitary Charge to the Service Provider as if the service was being properly performed;
- changes in the number of certain categories of asset, to be maintained, whether by addition/subtraction or by discovery through further due

- 12.11 In order to mitigate the effect of these risks, a contingency in the Project has been set aside. It should be noted that, in a number of the cases listed above, the Council would have the option whether to incur the relevant costs or alternatively to require a change in the contract to remove the issue causing the cost, although normally with a consequential reduced level or quality of service. However, in the event that the issue causing the cost could not be removed and/or funding from an alternative source could not be found then, should the cost not be covered by the contingency fund, the Council would be required to fund the shortfall.
- 12.12 Upon selection of the Preferred Bidder for the Contract, it is anticipated that the selected Bidder will commence a number of mobilisation activities, which will be agreed prior to the Call for Final Tenders. It is the intention of the Council to enter into a Mobilisation Agreement with the Preferred Bidder, to set out its obligations, its rights to enter Council property before it is leased to the Service Provider, and setting out risk and cost allocations in the event that the Contract is not then entered into. The Mobilisation Agreement will also set out any obligations which the Service Provider wishes to impose upon the Council and which are agreed by the Council as being necessary. The authority to enter into this Agreement is included in the delegation already approved for the Project Sponsor in relation to this Project.
- 12.13 As set out in the 2008 Report, the main contract and one or more other agreements will need to be certified under the Local Government (Contracts) Act 1997 to protect the Service Provider and its Funders against the remote possibility of a challenge to the powers which the Council will be relying on to enter into contractual arrangements. It is recommended that the power to certify such contracts under the Local Government (Contracts) Act 1997 be delegated to the statutory section 151 officer of the Council or her statutorily authorised nominee.

13.0 EQUALITY OF OPPORTUNITY IMPLICATIONS

- 13.1 An Equalities Impact Assessment ("EIA") has been undertaken to assess the effects that the Project is likely to have on the different groups within the City.
- 13.2 The EIA highlights the universal benefits of the Project to all users of the highway network and streetscene by improving safety, reducing crime and the fear of crime, making neighbourhoods more accessible to all and improving use of public transport. In particular, the Project will, through the improvement of footway surfaces, be of great benefit to those with mobility problems, wheelchair users and people with young children using prams and pushchairs.
- 13.3 An Action Plan has been drawn up to reflect the outcome of the assessment, and progress against the Action Plan will be monitored as the Project develops. This ongoing monitoring includes ensuring that the benefits

identified in the Project are achieved and that customer satisfaction with the condition of the City's roads and pavements improves.

14.0 HUMAN RIGHTS IMPLICATIONS

- 14.1 There are not considered to be any human rights implications arising out of this report.

15.0 ENVIRONMENT AND SUSTAINABILITY IMPLICATIONS

- 15.1 The Council's environmental requirements for the Project reflect the Council's commitment to environmental improvement and sustainability. At each stage of the procurement process the Bidder's environmental proposals will be evaluated on their environmental impact and the sustainability of their solutions.
- 15.2 In particular, Bidders will be assessed on their proposals to:
- use sustainable materials;
 - minimise waste;
 - re-use materials;
 - minimise energy consumption and improve energy efficiency; and
 - minimise the environmental impact of construction and maintenance vehicle movements.
- 15.3 Bidders are also required to minimise the length of time roadworks are in place, which will, in turn, help to reduce congestion and, hence, vehicle emissions.
- 15.4 Through the use of an innovative Carbon Model, required to be submitted as part of the Bidders' proposals, the Council is able to assess the Carbon impact of key elements of the Bidders' solutions. Throughout the period of the Highway Maintenance contract, the selected Service Provider will be required not to exceed the annual Carbon Target derived from the Carbon Model. In this way, the Carbon impact of the Service Provider's highway maintenance activities will be monitored and the levels of CO₂ and other greenhouse gas emissions minimised.

16.0 ECONOMIC IMPACT

- 16.1 Bidders are required, as part of their bids, to set out their proposals for enhancing the social and economic prosperity of the City. The social and economic benefits offered will be incorporated into the contract and will help in the achievement of the Council's Ambitions and Priorities.
- 16.2 Bidders will be assessed on the benefits which may be offered, including such matters as the development of sustainable supply chains, training opportunities for the local labour market, employment opportunities for hard-to-reach groups and training programmes for the transferring workforce. Bidders will be required to show how their purchasing power may assist in

the development of the local economy through encouraging SMEs to bid for work opportunities arising from the Highway Maintenance contract.

17.0 COMMUNITY SAFETY IMPLICATIONS

- 17.1 A better maintained highway network will have a number of positive Community Safety implications. Good footway surfaces will result in fewer personal injury accidents, and good carriageway surfaces, complemented by clear signs and markings, will provide a safer environment for motorists, cyclists, horse-riders and pedestrians, leading to fewer road traffic accidents.
- 17.2 A well-maintained streetscene will help to make everyone feel safer but particularly the elderly and the vulnerable. It will also give residents a clear signal that the area in which they live is important and well cared for, giving a message of reassurance and dispelling feelings of social exclusion.

18.0 HUMAN RESOURCES IMPLICATIONS

- 18.1 Following the restructuring of Street Force and the transfer of staff and functions to the Public Realm Service (see section 5 above) it is expected that approximately 500 employees will transfer to the Service Provider, or to sub-contractors of the Service Provider, in accordance with the Transfer of Undertakings (Protection of Employment) Regulations 2006 ("TUPE"). In addition, a small number of staff from within other areas of the Council and employees of Council sub-contractors who provide support services to the Council's Highway Maintenance functions may also transfer under TUPE.
- 18.2 A Joint Trades Union Forum was established in 2006 as the single body for consultation and communication on staffing matters relevant to the Project and continues to meet on a monthly basis.
- 18.3 In accordance with TUPE, the Council has commenced formal consultation with employees and their Trade Union representatives over the proposed transfer. The consultation is being undertaken in accordance with the Council's Code of Practice for staff transfers, which is agreed with the Trades Unions.

19.0 PROPERTY IMPLICATIONS

- 19.1 Street Force currently operates from a number of Council depots across the City. The Highway Maintenance Project is making available to the Service Provider, if required, the existing depots at Olive Grove, Eyre Lane, Bracken Hill and Deepcar, together with the former South Yorkshire laboratory site at Ecclesfield, to deliver the services. It is likely that Bidders will wish to use the Ecclesfield site as a Northern Depot base for the delivery of services, which would ensure that the Service Provider has a base north of the River Don if the circumstances of the 2007 flood should ever arise again. These sites will be occupied on the basis of a lease which will automatically terminate on expiry of the Contract or earlier termination, so that the Council can obtain

immediate access to the sites required to deliver the services, should this become necessary.

- 19.2 Officers are currently carrying out work to ensure that the Council's existing records of land held for highway purposes or forming part of the highway are up-to-date. This may require appropriation of land into and out of the highway.

20.0 COMMUNICATION STRATEGY

- 20.1 The Council has been providing key stakeholders with briefings on the Project on an ongoing basis. These key stakeholders include:

- Sheffield Residents;
- Council staff;
- Trades Unions;
- Cabinet Members;
- Other Council Members;
- Community Assembly Managers and Members; and
- Other interest groups.

- 20.2 The Council has used a number of communication methods to provide key details and messages about the Project:

- Website and intranet updates have provided information to all Council staff and Sheffield residents;
- Quarterly newsletters and e-bulletins have been produced to provide transferring staff with information;
- Monthly meetings have been held with Trades Union members and Councillors; and
- Briefing presentations have been arranged with Community Assemblies and other interest groups.

- 20.3 As part of their submissions, Bidders are required to provide details of how they intend to work with each Community Assembly area and to communicate with businesses and residents in each area, including their proposed use of internet and other forms of communications to provide up-to-date information on their programmes, consequent traffic congestion etc. This information will allow all residents, businesses and visitors to the City to identify where works will be taking place at any one time across the City.

- 20.4 Once a Preferred Bidder has been selected, they will meet with all Community Assembly Managers to discuss the details of how they will work together going forward.

21.0 WHAT DOES THE PROJECT MEAN FOR SHEFFIELD PEOPLE?

- 21.1 Sheffield's highway network and streetscene have suffered from a low level of capital maintenance and investment for many years and this has resulted in substantial lengths of the network requiring refurbishment.
- 21.2 The investment to be delivered via the Project will refurbish and maintain the highway network so that it meets user needs for safety, cleanliness and general appearance, facilitates the use of all forms of transport links and improves customer satisfaction. The investment will lend support to the huge level of investment already made and to be made by the Council and its partners in regenerating the City and assist in the achievement of the Council's vision and policy priorities, thereby adding value to that investment in regeneration.
- 21.3 The Project's direct benefits will be improvements to all of the highway assets, including smoother carriageways and footways, lighting which meets modern standards, and a more planned approach to maintenance. As a result of these improvements, numerous indirect benefits will flow, such as reductions in road traffic accidents and vehicle operating costs. Other very real benefits will emerge from improvements in the streetscene, resulting in streets that are well managed and that residents can be proud of.

22.0 RECOMMENDATIONS

- 22.1 Members are recommended to:
 - 22.1.1 Welcome the revised conditional award by the DfT of PFI funding of £1.21bn for the Highway Maintenance PFI Project;
 - 22.1.2 Approve the revised scope of services to be included in the PFI contract as set out in section 4 of this Report;
 - 22.1.3 Approve the revisions to the Procurement Timetable, as set out in section 6.8 of this Report;
 - 22.1.4 Extend the delegations to the Project Sponsor approved in the 2008 Report to include the approval of the selection of the Preferred Bidder, in consultation with the Cabinet Members for Environment and Transport and for Finance;
 - 22.1.5 Approve the financial revenue commitments to the Project set out in section 10 of this Report on the understanding that this will commit their inclusion in the budget for 2012/13 and beyond;
 - 22.1.6 Approve, in principle, the use of capital contributions of up to £100m, to be funded from prudential borrowing and authorise the Project Sponsor, in consultation with the Cabinet Member for Finance, to commit final approval, and to agree the terms and conditions, including the amounts and timing, of such Capital Contributions;

- 22.1.7 Approve additional procurement resources of £1.6m, to be funded from Reserves;
- 22.1.8 Approve the recommendation that the Service Provider for the Highway Maintenance PFI Project be authorised to carry out the statutory functions set out in section 12.6 of this Report;
- 22.1.9 Approve the recommendation that the power to certify contracts that require certification under the Local Government (Contracts) Act 1997 be delegated to the statutory section 151 officer of the Council, or her statutorily authorised nominee as referred to in section 12.13 of this Report.

John Mothersole, Chief Executive
Simon Green, Executive Director, Place
Laraine Manley, Executive Director, Resources

26th October 2011

APPENDIX 1

SCOPE OF PROJECT

Highway Maintenance PFI Project – Scope of Project**Within Scope – Core Activities**

Structural/Capital Maintenance	Including: <ul style="list-style-type: none"> • Carriageways, footways, cycleways, urban rights of way and remote footpaths • Structures, including bridges, retaining walls, culverts etc • Streetlighting • Signals, signs, markings etc • Fences, barriers and other street furniture • Highway tree replacement
Routine Maintenance	Including: <ul style="list-style-type: none"> • Drainage eg gully emptying etc • Cleansing on highway e.g. sweeping, graffiti removal, highway toilets etc (with enhanced services standards as requested by Community Assemblies) • Grounds maintenance on highway e.g. highway trees, verges, landscaped areas, weedkilling etc
Emergency provision	<ul style="list-style-type: none"> • Winter maintenance • Standby
Miscellaneous	<ul style="list-style-type: none"> • RASWA inspections • Highway enforcement – initial approach • Insurance claims • Testing/Assessment on Sheffield Highways • Strategic assistance to the Council

Within Scope – Non-Core Activities

Design and Build	<ul style="list-style-type: none"> • Design and Build - LTP Integrated Transport schemes <i>normally limited to the OJEU limit from time to time to a value to be agreed -</i> • <i>Design and Build -Off Highway schemes normally limited to the OJEU limit from time to time</i> • Other highway improvement schemes – Checking, and Design & Build as required • Section 278 schemes – Checking, and Design & Build as required
Miscellaneous	<ul style="list-style-type: none"> • Assistance with civil emergencies • In Bloom operations