

Policy Committee Decision Report

Title of Report:	Streets Ahead PFI Contract Refresh
Date of Decision:	20 th December 2024
Report To:	Waste & Street Scene Policy Committee
Report Of:	Ajman Ali – Executive Director of Neighbourhood Services
Report Author:	Richard Eyre – Director, Street Scene & Regulation Services; Mohamed Edroos – Assistant Director, Highways; Andrew Kemp – Senior Procurement and Supply Chain Manager

Executive Summary: The Streets Ahead PFI Contract is now 12 years old operationally although the project to initiate and procure it started over 15 years ago.

The Contract is output based which provides for only a limited level of flexibility for community-based input and contribution. Generally, the Service Standards are based on 'city wide' requirements and as such do not always address the differing needs of the city's communities.

Sheffield has changed significantly over the last 12-15 years. There have been changes to the city's demographics, geographical and economic shifts, the impacts of environmental issues are being felt more often and severely and technology through innovation has also moved on significantly since the start of the Contract.

Furthermore, the outcomes of the Lowcock Inquiry have shaped the way the council and its PFI construction partner, Amey work together to deliver the services specified in the contract.

Although we still have one of the best highway networks in the country, the perception and customer experience over the past few years does not always reflect this.



Performance statistics such as the condition of the city's road surface in particular potholes, street cleansing and customer services demonstrates performance has been improving over the last few years.

This report will outline proposals to amend the current contractual clauses associated with the carriageway asset management strategy, contract termination and provision of additional clauses for incorporating procedures for Small Value Changes.

The driver for these proposed changes is to remove ambiguity from the current processes.

Amey is willing to demonstrate its commitment to the Contract in lieu of the proposed changes, by investing a financial consideration in furtherance to the objectives of the Streets Ahead PFI Contract Refresh.

This report details:

- i. why a Contract review is necessary at this stage;
- ii. the intended outcomes of the Contract Refresh, including operational and financial benefits;
- iii. current progress against the additional benefits;
- iv. the governance process to achieve the above.

Council Plan outcomes:

[A place where all children belong and all young people can build a successful future](#)

[Great neighbourhoods that people are happy to call home](#)

[People live in caring, engaged communities that value diversity and support wellbeing](#)

[A creative and prosperous city full of culture, learning, and innovation](#)

[A city on the move – growing, connected and sustainable](#)

Policy Committee remit:

This report is to be considered by the Waste and Street Scene Policy Committee as its remit includes [Part 3C - 3.3 Matters Delegated to Committees May 2024.pdf \(sheffield.gov.uk\)](#)

Does the report contain confidential or exempt information? Yes

The closed appendices are not for publication because it contains exempt information under Paragraphs 3 and 5 of Schedule 12A of the Local Government Act 1972 (as amended).

Recommendations:

The Waste and Street Scene Policy Committee is recommended to:

1. Note that officers will proceed with delivering items 1 and 3 of table 3 in part 2 of this report through early 2025, and that a project team and a working group will be set-up followed by the development of a detailed programme.
2. Agree to changes in the PFI contract required to enable the adoption of the proposed asset management strategy set out in part 3, and appendix 2 to this report.
3. Agree to the inclusion of an additional mechanism for implementing small value changes into the PFI contract, as described in part 4 to this report.
4. Agree to the amendments made to sections of the contract pertaining to the termination process, set out in appendix 3
5. Delegate to the Executive Director of Neighbourhoods in consultation with the General Counsel to negotiate and finalise the proposed contract changes noted above and to approve the execution of the Deed of Variation subject to DfT Approval and lender consent.
6. Note that acceptance of the above changes if approved will result in the financial benefit from Amey LG set out part 10 of this report.

Financial Implications: Yes, Approved by: Philip Gregory

Legal Implications: Yes, Approved by: Rita Collins

Equality and Engagement Implications: No, Approved by: Equalities & Engagement Officer Ed Sexton

Full Equalities Impact Assessment completed with EIA number: 2916

Climate Change Implications: Yes Approved by: Leila Gunnewicht

Full Climate Impact Assessment completed with CIA number: #117

Background Papers: None.

Appendices: Appendix 1 – Contract Refresh Project Set-Up
Appendix 2 (Closed) – Proposed Asset Management Strategy (Authored by Amey)

Appendix 3 (Closed) – Changes to Default and Termination Clauses

Appendix 4 (Closed) Legal advice provided by Council's external legal advisers on proposed Deed of Variation



1. Background

1.1. Background to the PFI

- 1.1.1. Sheffield City Council (**SCC** or the **Council**) entered into a Private Finance Initiative (**PFI**) with Amey Hallam Highways Limited (**AHH**), subcontracted to Amey LG (**Amey**) relating to the rehabilitation, maintenance, management and operation of the highway assets in the Sheffield area dated 31st July 2012, which is due to expire in 2037 (the **Contract** or the '**Streets Ahead**' **Contract**). The Contract covers all aspects of highways maintenance - from surfacing of footways and roads, litter and fly tipping removal, street lighting and street signs, gritting and environmental maintenance such as tree care and planting, flower beds and shrubs and grass cutting).
- 1.1.2. PFI contract arrangements are a form of public-private partnership used to fund and manage public infrastructure projects using private sector finance. The finance is used to build and operate public sector infrastructure and then this investment is offset by the ongoing revenue of long-term management contracts. It provides a mechanism to bring a significant capital injection without increasing Government/public sector borrowing.
- 1.1.3. The scale and scope of the Contract is significant. It includes day to day management of the Council highway street scene as well as capital investment in improving roads and highway infrastructure which includes:
 - A Core Investment Programme (**CIP**) to bring roads and footpaths surfaces up to standard and replacement of ageing street lights and traffic signals.
 - Lifecycle Investment Programme (**LIP**) for ongoing maintenance of assets (roads, footpaths, street lighting, traffic signals, street trees, bridges/structures, verges)
 - Responsibility for clearance of litter and fly tipping, grass cutting and other landscape maintenance.
 - Winter maintenance (gritting priority routes and provision of grit bins)
- 1.1.4. The Streets Ahead Contract sits with AHH. This is a special purpose vehicle (**SPV**) company, established solely for the Contract. AHH holds the debt relating to the Contract and used for the investment programme which it off-sets against the payment received from the Council for the Contract (Unitary Charge)
- 1.1.5. AHH sub-contract the delivery of the Contract, including the investment works and day-to-day operations to Amey. Amey is a significant leader in the infrastructure sector, holding contracts with many other local authorities, National Highways and Network Rail. All references to discussions with the subcontractor Amey, include the SPV, AHH.
- 1.1.6. Under the Contract, Amey delivers a combination of works which include the following:
 - Planned Works – delivered as a programme of improvement works.
 - Cyclical works – delivered as a programme of planned inspections and repairs.
 - Reactive works – delivered in response to defects recorded by Council officers, Amey's inspectors, customer queries and complaints.
- 1.1.7. The output specification is set out in the Contract (Schedules of Service Standards for Core Service) with 709 performance measures (**Performance Requirements**) included in these. Performance Requirements range from

annual submissions for planned works to response times to incidents on the highway network.

- 1.1.8. Examples of Service Standards include: carriageways, structures, street lighting, grounds main, street cleaning. In total there are 10 Service Standards areas. These Service Standards are summarised in Table 1 below.

	Service Standard	Examples of Services Covered
1.	General	Customer Experience, Urgent/Emergency Response
2.	Carriageways and Footways	Carriageway & Footway Repairs, Drainage Repairs
3.	Structures	Structures Inspections, Repairs
4.	Street Lighting and Signs	Lamp replacements, column replacements
5.	Traffic Controls Infrastructure & Communications	Signals Repairs
6.	Grounds Maintenance	Horticulture, Arboriculture
7.	Winter Maintenance	Gritting
8.	Street Cleaning	Street Cleansing
9.	Miscellaneous Assets	Benches, Monuments
10.	Strategic Assistance	Accident Investigation

Table 1 - Summary of Service Standard Areas

- 1.1.9. These Service Standards cover all assets within the existing highway corridor and are summarised in Figure 1 below.



Figure 1 - Assets Covered Under the Streets Ahead PFI Contract

- 1.1.10. A redacted version of the Contract is published on the Council website and can be accessed through the following link: (<https://www.sheffield.gov.uk/roads-pavements/streets-ahead/streets-ahead-documents>)

1.2. Monitoring and Managing Performance

- 1.2.1. Amey's performance is managed in accordance with the 709 Performance Requirements referred to above.
- 1.2.2. Each Performance Requirement has a defined financial value (indexed with inflation) associated with it and is proportional to the value of the Performance Requirement itself.
- 1.2.3. If Amey fail to meet any of the Performance Requirements, they accrue points which feeds into the performance reporting. The total number of points is then converted to a financial value which is in turn deducted from the monthly unitary charge which the Council and Department for Transport (**DfT**). contribute towards as part of the payment under the Contract.
- 1.2.4. The Contract also includes a ratchet mechanism whereby if in any month multiple failures associated with the same Performance Requirement are recorded, then the Service Points or Direct Service Points are multiplied in proportion to the number of repeats reported. If a certain number of points are reported, termination provisions under the Contract are triggered.
- 1.2.5. If Amey deliver continuous levels of poor performance over a 3 month, 6 month or 12 month period, it will be in default under the Contract. If continuous poor performance meets any of the defined thresholds over these periods, then termination is triggered under the Contract.

1.3. Amey's Performance and Achievements to Date

- 1.3.1. The Contract commenced in August 2012. Prior to this, Sheffield acquired a negative reputation in respect of its highways – even being labelled as 'Pot-Hole' City in national media public satisfaction with roads was very low, existing signals were old, and the street lighting infrastructure was ageing and built with outdated and inefficient sodium light systems.
- 1.3.2. Following award of the Contract, much has been achieved in terms of upgrading the City's infrastructure. Up until December 2023, Amey delivered several improvements to these service areas, including:
 - Repaired over 154,000 potholes,
 - Replaced nearly 3,500 drainage gullies,
 - Installed over 66,802 new LED streetlights, replacing the old sodium lights
 - Made improvements to over 1,350 bridges and structures
- 1.3.3. Further achievements are summarised in Figure 2 below.

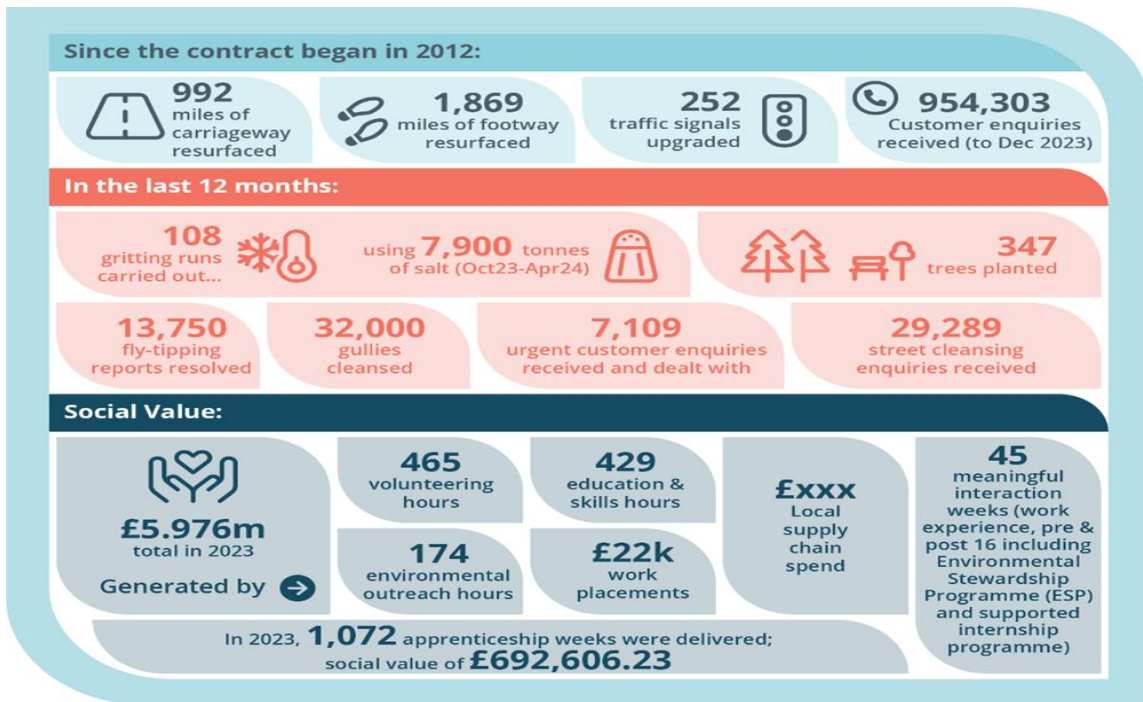


Figure 2 - Amey's Achievements Until December 2023

1.3.4. All councils are required to submit an annual condition survey report of their carriageways to the DfT. These surveys are summarised in condition scores. The need to undertake maintenance works are triggered when the condition scores reach a specified threshold. Figure 3 demonstrates that since 2008, the conditions of the roads were deteriorating until Amey submitted the first set of data for the 2014 reporting when the CIP works were commencing. Since then, performance has progressively improved with the % of classified roads requiring maintenance reducing year on year (the lower the percentage, the better the network condition).

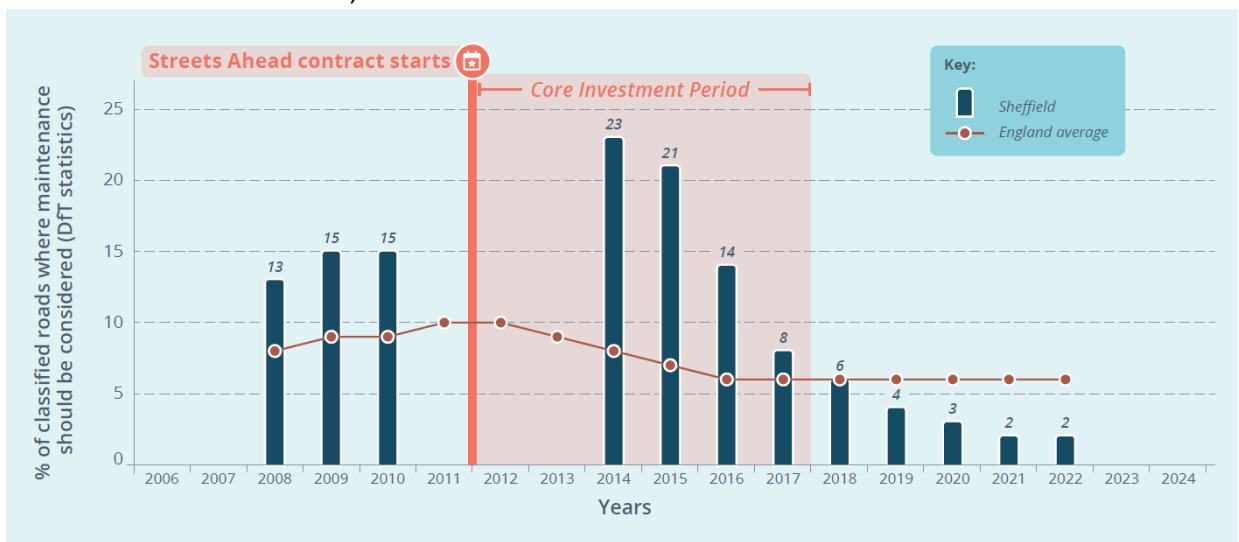


Figure 3 - Record of % of Classified Roads Where Maintenance Should be Considered from 2008 Onwards

1.3.5. Whilst overall performance has been good, officers note that since the start of the Contract, there have been occasions of poor performance as well as

- significant issues around trust and perception of both the council and Amey which subsequently led to the publication of the report from the Lowcock Inquiry.
- 1.3.6. The Inquiry made a number of observations about the complexity of the Streets Ahead contract and the skills the Council will need to have, or be able to call on, to ensure maximum value is derived for residents. It concluded that “New problems – and opportunities – will probably arise. A spirit of partnership on all sides will need to be sustained if they are to be dealt with effectively.” And it recommended that “While sustaining its current partnership mindset, the Council should consider whether it has the skills and capacity needed adequately to pursue its interests in managing the contract with Amey.
- 1.3.7. In response to the outcomes of the inquiry, the council committed to:
- Creating new roles (and leadership capacity) by October 2023 which was achieved following the appointment of a new Assistant Director for Highways
 - Continuously improve the way all parties meet the contract requirements, budget and statutory duties.
 - Develop approaches which evolve and meet local needs now and in the long-term.
 - Increase capacity for the preparation, design, delivery and recording of new work and maintenance to existing and new sections of the highway across the city
 - Enable the Streets Ahead contract to support other Council priorities, such as carbon reduction.
- 1.3.8. In 2022, Amey’s performance was such that termination was triggered. This was largely attributable to the failure to deliver its commitments in the Annual Investment Programme (AIP) & its planned maintenance programme. Due to the nature of the Performance Requirement, the failure to meet the AIP triggered the thresholds for termination. Amey managed to correct this issue and within 3 months were able to rectify the issue so that they were no longer in default in respect of this service standard.
- 1.3.9. In September 2023, officers submitted a report to the Waste and Street Scene Committee detailing Amey’s poor performance around customer experience and Category 2 (CAT 2) potholes repairs. Since then, Amey have restructured their Customer Experience team and performance has improved in this service area. Additional resources have been mobilised for CAT 2 pothole repairs and performance in this service area continues to improve with both Council and Amey representatives monitoring performance on a regular basis.

2. Contract Review – Project Set-Up and Scope

Background to the Contract Review

- 2.1.1 The Contract is now 12 years old operationally and the project to initiate and procure commenced over 15 years ago. The Contract is output based which provides for only a limited level of flexibility for community-based input and contribution. Generally, the Service Standards are based on 'city wide'

requirements and as such do not always address the differing needs of the City's communities.

- 2.1.2 Sheffield has changed significantly over the last 12-15 years. There have been changes to the City's demographics, geographical and economic shifts, the impacts of environmental issues are being felt more often and severely and technology through innovation has also moved on significantly since the start of the Contract.
- 2.1.3 Although we still have one of the best highway networks in the country the perception and customer experience does not always reflect the performance statistics. There is a negative perception of the City's Road surfaces in particular potholes, street cleansing and customer services.
- 2.1.4 The Contract has been previously varied to achieve savings. This has resulted in reducing the annual Unitary Charge by £4.1m with a further £14m (split 50/50 with DfT) saved by refinancing the debt in 2022. In most cases, by making these financial savings the effect has been to accept reduced standards in some of the areas such as grounds maintenance and street cleansing. A summary of changes is provided in Table 2 below.

Year	Value	Change
2014	£0	Milestone changes
2016	£645k (p/a indexed)	Refinance, output spec reductions to Street Lighting, snow wardens and CDM requirements
2019	£660k (p/a indexed)	Reductions to Street Cleansing & Grounds Maintenance requirements
2021	£330k (p/a indexed)	Management Info response time & customer experience reductions, urgent & cat 1 defects, revised approach to street trees (retain) and relief on output spec
2021	£1.7m (p/a indexed)	Recalibration of the payment mechanism
2022	£14m lump sum	Refinance shared 50 / 50 with the DfT

Table 2 - Summary of Contract Changes Since Commissioning of Contract in 2012

2.2. Contract Review – Project Goals and Scope

- 2.2.1. To deliver an effective review of the Contract, officers worked with representatives from both Amey and the SPV. A project team was set-up and key project goals were agreed. Appendix A outlines the proposed delivery structure under the Contract Refresh.
- 2.2.2. Council officers have noted through regular engagement with the public, businesses and members that concerns are centred around several key service areas in particular carriageway surface conditions, street cleansing, grounds maintenance and customer services.
- 2.2.3. Officers have also solicited advice from independent specialists to ensure the goals and proposed solutions will reflect the council's commitments to delivering an effective contract whilst being flexible enough to adapt to evolving and local needs as specified in our response to the outcomes from the Lowcock Inquiry.

- 2.2.4. This Contract Review project provides an opportunity to take stock and for the Council, Amey and SPV to ensure the Streets Ahead Contract continues to be sustainable for all parties, to deliver best value for Sheffield over the remaining 13 years whilst delivering a cash benefit to the City.
- 2.2.5. The initial scope for this review was underpinned by the Council Plan to ‘Help maintain great neighbourhoods that people are happy to call home and support a city on the move – growing, connected and sustainable’
- 2.2.6. A benefits register was developed focussing on eight specific areas where opportunities for improving performance and making savings from the Contract could be identified. This is summarised in Table 3 below.

	Item	Service Area
1	How can we adapt to a more flexible resource structure to deliver agile, tailored Services in street cleansing?	Street Cleansing and Grounds Maintenance
2	How can we adapt the current criteria for condition based asset management that is currently not flexible enough for communities?	Carriageways
3	How can we improve our 'Customer Experience' offering? Whilst overall Amey's Customer Experience standards are good, this forms a good starting point to identify new initiatives.	Customer Experience
4	'Hair trigger' Performance Requirements could place the PFI in default even if overall performance at a service level is good. How can such a scenario be managed such that sufficient mechanisms are in place to mitigate the contract from being threatened without compromising performance?	Commercial
5	What mechanisms can be employed to enable the Service Provider to produce a Rectification Plan before termination proceedings are applied?	Commercial
6	How can we promote improved collaboration between all parties to successfully deliver the PFI contract?	Management
7	How can we streamline Contract Change Processes to enable temporary Performance Requirement changes to meet local demands and needs? Need for PFI to be flexible in the future to allow changes when asset or city requirements change.	Commercial
8	How can Amey become a long-term partner for new works and non-core schemes	Corporate/Strategic

	Item	Service Area
	allowing flexibility and savings through procurement and delivery?	

Table 3 - Benefits Register Outlining Priority Areas for Improvement

- 2.2.7. Officers have acknowledged that the Contract Review would be delivered in 2 phases to account for the wide scope of the review. Benefits presented in Table 3, highlighted in green, will be negotiated and finalised subject to the approvals sought in this Report. Negotiations under benefits highlighted in yellow will be progressed in early 2025.
- 2.2.8. The proposed changes will result in a cash benefit from Amey **to the council** if implemented. The value of the benefit will be determined by the outcome of the negotiations on the priority areas. For example, different levels of risk transfer may result in a higher cash benefit. The proposed benefit will be weighed against the proposals made within this paper as part of the overall considerations.
- 2.2.9. Item 6 of Table 3 identified an opportunity for officers to work collaboratively with Amey and improve the culture of partnering. This was demonstrated recently whereby representatives from SCC, Amey and the SPV participated in a leadership away day. Discussions were held in an open and collaborative manner to develop a vision for improving the culture of partnering across all levels of the PFI delivery programme. The event was hosted by Amey and feedback from all participants was positive, noting that the vision for the future operation of the Contract was clear. Such an approach demonstrates all partners' appetite to deliver the contract in an open and transparent manner. This is in line with our commitments to deliver the contract according to the recommendations from the Lowcock Inquiry.
- 2.2.10. **THE WASTE AND STREET SCENE POLICY COMMITTEE ARE TO NOTE THAT OFFICERS PLAN TO PROCEED WITH ITEMS ONE AND THREE OF TABLE 3 THROUGH EARLY 2025. A PROJECT TEAM AND A WORKING GROUP WILL BE SET-UP FOLLOWED BY THE DEVELOPMENT OF A DETAILED PROGRAMME. THE DETAILS OF THESE PROPOSALS WILL BE SET OUT IN A COMMITTEE BRIEFING IN EARLY 2025.**

3. Contract Review – Asset Management Strategy

3.1. Scope and Proposal

- 3.1.1. Since the commencement of the Contract, there have been multiple factors that impact on the highways investment and the strategies required to flexibly adapt to these.
- 3.1.2. These include factors such as:
- Increase in population, housing developments and traffic flows
 - Higher frequency of potholes caused by severe weather
 - Changes in Environmental, Social and Governance (**ESG**) commitments
 - Evolution of transportation policies
 - Unforeseen issues relating to asset data provided at tender phase
- 3.1.3. Since 2015 the demographics of Sheffield have evolved significantly, with a c.90,000 increase in residents which, in turn, has increased traffic flows across

the City. If not flexibly managed, undertaking works on the carriageways could lead to increased congestion. In this same period, the country has seen a national increase in the number of potholes (both Category 1 and Category 2 defects) arising because of climate change, with severe weather from flooding and freeze/thaw effect impacting the highways. These changes coincide with ESG commitments and the push towards Net Zero Carbon by 2030 which has been at the forefront of government agenda and SCC's strategy.

- 3.1.4. Overall, Sheffield's traffic flows have become significantly more complex and dynamic since 2012. The population growth, associated infrastructure developments (such as in the city centre and Kelham Island), and evolving transportation policies have all contributed to this transformation.
- 3.1.5. To flexibly adapt to these changes, both SCC and Amey's representatives have undertaken a review of the carriageway maintenance operations to ensure the delivery of the City's road network infrastructure mitigates the risks of climate change and increased population impacts. These changes and adaptations will require a different investment profile than originally envisaged in 2012.
- 3.1.6. The proposals enable a flexible approach to delivering the contract for the way we manage our carriageways now and in the future. This demonstrates how all partners are working together to meet the commitments made by the council in response to the outcomes from the Lowcock Inquiry.
- 3.1.7. The closed Appendix 2 outlines a proposed Asset Management Strategy which builds upon the existing approach.

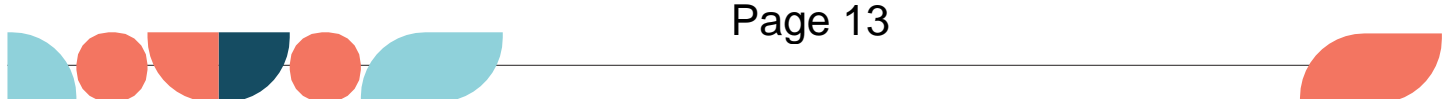
3.2. Officers Review and Recommendations

- 3.2.1. Further to the proposal and assessment outlined in the Closed Appendix 2 of this Report, officers recommend the incorporation of the proposed Asset Management Strategy into the Contract by way of variation. In principle, the PFI contract permits Amey to implement the strategy, however the incorporation of a new Asset Management model is an innovative way forward enabling a more agile approach meeting local needs. It will increase capacity for the preparation, design, delivery and recording of maintenance works, specifically resurfacing works, to existing and new sections of the highway across the city. The recommendation is to refer to the use of outputs from the Asset Management model along with regular updates to the Schedule 43 quantities tables as noted in the Closed Appendix.
- 3.2.2. **IT IS RECOMMENDED THAT THE WASTE AND STREET SCENE POLICY COMMITTEE AGREES TO THE REQUIRED CHANGES IN THE CONTRACT TO ENABLE THE INCORPORATION OF THE PROPOSED ASSET MANAGEMENT STRATEGY.**

4. Contract Review – Proposal for Implementing Small Value Changes into the Contract

4.1. Current Approach to Implementing Small Value Changes

- 4.1.1. Small Value Changes are typically changes to the operations which incur low value and carry low cost. Examples of recent changes include the implementation of the 'Onion Model' for street cleansing prioritisation in the City Centre which whilst small had a very positive impact on performance.
- 4.1.2. At present, 'Low Value Changes' are agreed via an operational agreement and not under a formal mechanism. Any possible effect on Performance



Requirements is reviewed and mechanisms to address those effects agreed at Management Board. This process can take time to agree and implement.

- 4.1.3. The examples of recent changes such as the implementation of the innovative Onion Model for street cleansing and the trialling of glyphosate reduction strategy were implemented through operational agreements. Whilst the proposals were intended to be beneficial for the City, officers acknowledged the impact on certain Performance Requirements which reduced Amey's appetite to participate in the trials. Extensive work was undertaken to formalise mechanisms such as disapplying Performance Requirements whilst the trials were ongoing. This required significant input from both officers and Amey's staff resulting in significant officer time and increased administrative costs.

4.2. Proposed Changes to Implementing Small Value Changes

- 4.2.1. It is proposed to introduce a simple 'Low Value / Temporary Change' mechanism into the Contract that is quick and easy to administer to allow temporary changes, innovations and trials to be evaluated and implemented. This proposal is intended to encourage flexibility and innovation in areas where these changes are difficult to introduce, and where the cost impact to delivery is negligible.
- 4.2.2. A Low Value / Temporary Change may be suggested by either party and the timelines and obligations on both parties should follow the drafting for Medium Value Change as set out in Part 2 of Schedule 18 of the Contract.
- 4.2.3. The temporary changes will be agreed by both parties and will not require lender consent, notification or approval, thereby avoiding legal fees and other expenses whilst they are being developed and trialled.
- 4.2.4. Any change in project costs associated with the Low Value / Temporary Change will be paid as a sundry adjustment via the Draft/Actual Monthly Payment Report.
- 4.2.5. These changes will usually involve suspensions to certain Performance Requirements whilst the projects are underway, and these should be detailed within each Low Value / Temporary Change Notice.
- 4.2.6. Each Low Value / Temporary Change Notice will include:
- a. A formal review date(s) for key milestones
 - b. An end date
 - c. Detail whether this end date may be extended by agreement of all project parties
 - d. Review of impact to performance requirements (under temporary change)
 - e. Detail of the mechanic for formal review and the criteria for measurement of success – to be agreed as required for each change
 - f. The governance process; the review of the success of each project undertaken as a Low Value / Temporary Change should be agreed at the Monthly Management Board
 - g. Monthly updates of the project should be detailed at sub-team meetings or at the Service Operations Board as appropriate.
- 4.2.7. If projects undertaken under the Low Value / Temporary Change are successful and are agreed to be introduced into the contract permanently, the process to draft and incorporate these changes will be dealt with in the next Medium or High Value Change as appropriate. A schedule of Low Value / Temporary Changes will be maintained by Amey through the extent of the PFI contract.
- 4.2.8. There will be no changes to the Medium and High Value Changes process.

4.3. Assessment of Proposed Small Value Change

- 4.3.1. Officers acknowledge that the Contract is currently quite inflexible since it is based on the Standardisation of PFI Contracts Version 4 (SOPC4) published in 2007 and the change mechanism terms applicable at the time. This is increasingly becoming a barrier to effective service delivery, as minor adjustments to the services are often needed to respond to changing local and city-wide service demands. As it stands, the Contract does not allow for a straightforward process to implement minor changes. By increasing flexibility within the Contract, we will simultaneously increase agility of service delivery in Sheffield to be more responsive to the needs of local communities.
- 4.3.2. This proposal is intended to encourage flexibility and innovation in areas where these changes are difficult to introduce, and where the cost impact to delivery is negligible. The rise of ESG commitments in local authorities and the move towards zero carbon is likely to promote new ideas, technologies and environmental innovation (e.g. in products, materials and plant) over the remaining term. This mechanism will allow these innovations to be fully trialled prior to executing any changes. Recent examples where this would have been beneficial to the project is the successful trial of the 'Onion Model' which allowed for a more flexible approach to street cleansing in the city centre, and the glyphosate reduction trial.
- 4.3.3. The concept of a Low Value Change is common in PFI projects and represents a quick and efficient way to agree minor changes, which do not affect the Annual Unitary Charge.
- 4.3.4. The implementation of this mechanism will also enable the council to meet its commitments to the outcomes from the Lowcock Inquiry by adopting new strategies to meet local needs as well as supporting other council priorities such as carbon reduction.
- 4.3.5. Officers therefore consider this proposal as a reasonable mechanism to be included in the Contract and recommend its inclusion to the WSS Policy Committee.
- 4.3.6. **IT IS RECOMMENDED THAT THE WASTE AND STREET SCENE POLICY COMMITTEE AGREES TO THE INCLUSION OF AN ADDITIONAL MECHANISM FOR IMPLEMENTING SMALL VALUE CHANGES INTO THE CONTRACT.**

5. Contract Review – Changes to the Default and Termination Clauses and Permitting Automatic Rectification Plans

5.1. Scope of Proposal

- 5.1.1. As noted in section 1.3 of this Report, Amey's poor performance triggered termination under the Contract, being the only time during the term of the Contract to date for this to occur. Whilst not ideal, the termination trigger highlighted the risks of termination to Amey.
- 5.1.2. The degree of risk associated with termination has a direct impact on Amey's corporate performance reporting. Consequently, Amey have requested a review of the termination process and how the process could be developed to afford Amey with an opportunity to address poor performance before termination rights are triggered.

5.1.3. Closed Appendix 3 outlines the current approach to the termination process, the proposed changes to it, and details of the Council officers' assessments.

5.2. Officers Recommendations

5.2.1. Following a full review of the termination process outlined in the closed Appendix 3 of this Report and taking note of the options considered, officers recommend that the proposed changes to the termination process is implemented. This recommendation is to be reviewed in line with the financial implications outlined in Section 10.1 of this Report.

5.2.2. **IT IS RECOMMENDED THAT THE WASTE AND STREET SCENE POLICY COMMITTEE AGREES TO EXECUTIVE DIRECTOR OF NEIGHBOURHOODS IN CONSULTATION WITH THE GENERAL COUNSEL TO NEGOTIATE AND FINALISE THE PROPOSED CONTRACT CHANGES NOTED ABOVE AND TO APPROVE THE EXECUTION OF THE DEED OF VARIATION.**

6. How Does This Decision Contribute to the Council Plan

6.1. Council Plan Outcome

Asset Management Strategy

6.1.1. The proposed Asset Management Strategy incorporates a flexible approach to delivering appropriate treatment at an early stage during the deterioration of the carriageway pavements. The net effect being an increase in resurfacing works. The planned approach to addressing CAT2 potholes with early intervention reduces frequent visits to localised areas, thus reducing disruption to road users.

Small Value Change Mechanism

6.1.2. The proposed Small Value Change mechanism unlocks opportunities for both Amey and SCC to invest in trialling innovative solutions and techniques before considering implementing it into the Contract permanently. The proposal aligns with the Sheffield City Goals, enhancing its reputation with better infrastructure and increasing resilience by minimising disruption on the road network.

6.1.3. Improved infrastructure contributes to the five strategic outcomes, including:

- A place where all children belong and all young people can build a successful future – by maintaining our road network to a high standard and using innovative treatments and initiatives, the streets can be safe and citizens continue to maintain access to key destinations across the City.
- Great neighbourhoods that people are happy to call home – improved infrastructure and reduced multiple visits to repair localised defects will in turn reduce disruption through road closures and construction traffic. An enhanced infrastructure will improve road user experience contributing to this outcome. Innovative work methods and solutions will also deliver improved and enhanced infrastructure.
- People live in caring, engaged communities that value diversity and support wellbeing – enhanced infrastructure in particular carriageway surfaces and innovative treatments procured under the small value change mechanism will improve road user safety, experience and accessibility. Furthermore, reduced multiple visits to same areas will improve resilience in our infrastructure and encourage community

engagement and a reduction in congestion due to multiple visits will contribute towards healthy, happier, more prosperous place for all.

- A creative and prosperous city full of culture, learning, and innovation – improved infrastructure, reduced disruption and innovation procured through small value changes will encourage growth in the City, improve economy and support a vibrant and diverse culture in which everyone can find themselves.
- A city on the move – growing, connected and sustainable – the implementation of a revised asset management strategy and small value change mechanism will lead to improved infrastructure with reduced disruption to road users. This will unlock opportunities for internationally leading research, innovation and product development firms based in our and the UK's first Investment Zone along with other local businesses to connect with each other and their supply chains whilst also attracting more businesses into the City, driving up demand for new skills, jobs and ideas.

6.1.4. The proposed changes to the termination process will afford Amey the opportunity to rectify any sub-par performance before termination is triggered. The proposed changes makes performance central to the termination process which will support the Council outcomes noted above.

People, Prosperity & Planet

6.1.5. As noted above, the proposed changes in this Report will contribute to our goals as described below:

- The revised asset management strategy will contribute towards:
 - Reduced congestion for motorists improving accessibility across the city and supporting economic growth
 - Improved ride quality through increased resurfacing works will improve accessibility experience
 - Reduction in carbon use due to reduced multiple visits to the same area will improve air quality and noise disruptions
- The proposed Small Value Change Mechanism allows scope for temporary changes to be made at an operational level. Temporary changes will typically be required to undertake trials for new initiatives or trial new technology normally considered from perspective of adding value for the city, its people and the environment.
- The proposed changes to the termination process will enable officers to initiate conversations with Amey around performance improvement, adding value for the City and its people.

6.2. City Goals

Where we all have opportunities to invent, make, create and build in ways that grow shared prosperity, create high-quality jobs and enrich our communities and ourselves.

6.2.1. The proposed Asset Management Strategy incorporates a flexible approach to delivering appropriate treatment at an early stage during the deterioration of the carriageway pavements. The net effect being an increase in resurfacing works. The planned approach to addressing CAT2 potholes with early intervention reduces frequent visits to localised areas, thus reducing disruption to road users.

6.2.2. The revised asset management strategy will contribute towards:

- Reduced congestion for motorists improving accessibility across the city and supporting economic growth

- Improved ride quality through increased resurfacing works will improve accessibility experience and enrich our communities
 - Reduction in carbon use due to reduced multiple visits to the same area will improve air quality and noise disruptions
- 6.2.3. The proposed Small Value Change mechanism will allow scope of innovation to be rolled out efficiently. New initiatives that contribute to this goal can also be trialled efficiently.
- 6.2.4. The proposed changes to the termination process will allow officers and Amey representatives to work collaboratively to identify root causes of any possible poor performance should the situation arise. This mechanism allows scope for maintaining continuity of delivering to Sheffield City Goals.
Where we all act urgently on the climate and environmental crisis, prepare for a changing future, and prioritise the health and wellbeing of our city's people and nature.
- 6.2.5. A key component of the proposal is the adoption of a new Asset Management Strategy. The revised Asset Management Strategy will contribute towards:
- Reduced congestion for motorists improving accessibility across the city and supporting economic growth
 - Improved ride quality through increased resurfacing works will improve accessibility experience and enrich our communities
 - Reduction in carbon use due to reduced multiple visits to the same area will improve air quality and noise disruptions
- 6.2.6. The Small Value Change Mechanism will allow officers to collaborate with Amey to trial out solutions that align with this goal more efficiently.
Where we all have opportunities to form lasting, positive relationships in our neighbourhoods and across the city, through technology, great transport and common causes.
- 6.2.7. A more flexible approach to asset management enables Amey to target deteriorating infrastructure early, enabling longer life treatments and preservation of assets until beyond the extent of the Contract - leading to customer satisfaction and improving connectivity in our neighbourhoods.
- 6.2.8. The Small Value Change mechanism allows the Council and Amey to trial out new and innovative solutions efficiently, exploiting the benefits of private sector innovation through the Contract.

7. What Community or Partner Engagement has been Undertaken

- 7.1. **Asset Management – Technical Review Undertaken by Independent Engineering Consultant**
- 7.1.2. Preventative maintenance is already an approved treatment solution in the Contract. The proposed change relates to increasing its use and quantities to treat greater areas of road surface within the same available budgets.
- 7.1.3. Officers procured the services of an Independent Engineering Consultant to undertake a review of the proposals. The outcome of the review is outlined in the closed Appendix 2.

7.2. Contract Termination Process – Technical Support from the Infrastructure Project Authority

7.2.2. Council officers have engaged with officers from the Infrastructure Project Authority (IPA). The outcome of officers' engagement is outlined in the Closed Appendix 3 of this Report.

8. What Alternative Options Did We Consider

8.1. Asset Management Strategy

8.1.1. The current Asset Management Strategy is aligned to the Contract requirements. The proposed strategy is a development to the current strategy using past intelligence of servicing including repairs, treatments and traffic growth to project future performance of the carriageway pavements. The alternative to this option was a do-nothing scenario which would mean continuing the same operations going forward. Officers agree that the proposal to revise the strategy will add benefits to the City in terms of increased resurfacing works with reduced multiple visits to the same area.

8.2. Changes to the Termination Process

8.2.1. Several options were considered as part of the exercise to update the termination process, these are noted below:

Macro Level Measures Towards Triggering Termination (Service Standard Measures)

8.2.2. This option was discarded for the following reasons:

- This would encourage performance to be centred around meeting service standard levels as opposed to individual performance requirements.
- There was no guarantee that individual performance requirements would be fully observed as it would not necessarily count towards termination.

Macro Level Measures towards Triggering Termination (Blend of % and Strategic Performance Requirements)

8.2.3. This option was discarded for the same reasons noted above, i.e. it did not guarantee compliance with all performance requirements or individual requirements that would not be included in the % performance scale or form part of the suite of strategic performance requirements.

Recalibration of Approx 100 Performance Requirements

8.2.4. This option was also discarded for the same reasons noted above.

Two-Tiered Approach Limiting Default to 54 Key Performance Measures

8.2.5. This option consisted of a stepped approach to termination.

- Firstly, performance measured against all performance requirements would be monitored, if poor performance would be triggered by meeting the contract thresholds, then this would lead to the next step.
- Secondly, performance would then be measured against 54 key performance measures. The 54 performance measures selected was based on past data where performance has been frequently measured against.

- 8.2.6. This option was discarded as officers acknowledged that whilst it would be unlikely that the service provider would reach the termination thresholds based on past performance, in the instance that it did, then the added second step would unlikely be breached if the service provider strategically remained compliant to those performance requirements, again raising the risk of not meeting all the performance requirements.

9. How has Equality, Diversity and Inclusion Been Actively Considered?

9.1. Findings from the Equality, Diversity and Inclusion Assessment

- 9.1.1. The proposals, in particular the proposal to implement changes to the carriageway asset management strategy enables more flexibility in decision making associated with resurfacing works. The proposal will to a certain degree mitigate the number of potholes across the city and enhance the condition of the road network. Under the current approach, resurfacing works are undertaken in response to carriageway condition surveys which are analytical. This approach in principle will not change.

10. Financial and Commercial Implications

10.1. Financial Implications

- 10.1.1. The proposed changes to the Asset Management Strategy and termination process are expected to generate a cash benefit from the Service Provider, Amey LG. This financial consideration is primarily linked to Amey's proposal to amend the termination process.
- 10.1.2. Amey have advised the Council that the current termination clauses in the Contract as summarised in the Closed Appendix 3 of this Report give rise to ambiguity in the termination process. This is likely to challenge the viability and sustainability of the Contract such that it may be an unattractive investment vehicle for future investors of the Amey business.
- 10.1.3. As such Amey are willing to demonstrate its commitment to the Contract in lieu of the proposed changes, by investing a financial consideration in furtherance to the objectives of the Streets Ahead PFI Contract Refresh.
- 10.1.4. As part of the financial considerations, Amey have offered a financial sum of £20 million which will be paid in equal instalments via deductions through the annual unitary charge for the remainder of the PFI contract, subject to increases in annual inflation.
- 10.1.5. The cost of the Contract Refresh, including the legal review and negotiations will be covered by the Council. Work done by Amey and the SPV will be covered by each respective party. The cost of the independent engineering assessment is covered by the SPV.

10.2. Commercial Implications

- 10.2.1. The proposed changes will require amendments to the existing PFI contract. Details of these changes are outlined in the Closed Appendices.

11. Legal Implications

- 11.1 The Council has a power to enter into the Deed of Variation under section 1 of the Local Government (Contracts) Act 1997 and section 111 of the Local Government Act 1972.
- 11.2 Any changes to the Contract must be documented in accordance with the appropriate variation process set out in the Contract.
- 11.3 A legal review of the proposed Deed of Variation has been undertaken by the Council's external legal advisers and this is included in Closed Appendix 4.

12. Climate and Environmental Implications

12.1. Climate Impact Assessment

- 12.1.1. A Climate Impact Assessment has been undertaken; reference no. for the assessment is #117. The assessment has been reviewed and signed off.

13. Other Implications

13.1. Other Implications

- 13.1.1. Aside from the implications noted in this report, not other implications are identified.

14. Reasons for Decision

14.1. Key Reasons

- 14.1.1. The PFI is now 12 years old operationally and the project to initiate and procure it was started over 15 years ago. The Contract is output based which provides for only a limited level of flexibility for community-based input and contribution. Generally, the Service Standards are based on 'city wide' requirements and as such do not always address the differing needs of the City's communities.
- 14.1.2. Sheffield has changed significantly over the last 12-15 years there have been changes to the City's demographics, geographical and economic shifts, the impacts of environment issues are being felt more often and severely, technology through innovation has also moved on significantly since the start of the Contract.
- 14.1.3. The Contract Refresh and the proposals outlined in this Report offers sustainable benefits that will enable the Contract to be better aligned with these changing demands.
- 14.1.4. As part of these changes, Amey have offered a financial benefit to demonstrate their commitment to the delivery of the Contract in its revised form.
- 14.1.5. Officers note that the proposals for asset management and small value change will contribute significantly towards the councils commitment to meeting the recommendations from the Lowcock Inquiry including the ability to operate flexibly and meet evolving demands and local needs.
- 14.1.6. The proposals are underpinned by all parties appetite to improve partnering and the contract culture leading to a more inclusive and transparent approach to delivering the requirements of the PFI.

