

Highways Maintenance and Management PFI Contract

Background information
November 2018

The contract

- Scope and structure:
 - Our highway asset
 - Why the council chose a PFI contract
 - Contract scope / structure
- Commercial elements:
 - Risk transfer
 - Energy

Our highway asset

613

**TRAFFIC
SIGNALS**

OVER

76,000

HIGHWAY TREES

OVER **£3m**
**ENERGY SAVING
YEARS 1-7**

846

**HIGHWAY
STRUCTURES,
BRIDGES AND
TUNNELS**

BASE UNITARY
CHARGE

~ £79M

PER ANNUM

3

**CITY CENTRE
TUNNELS**

94,781
STREET LIGHTS

**~5,000KM
OF FOOTWAYS**

**2,577KM
OF ROADS**

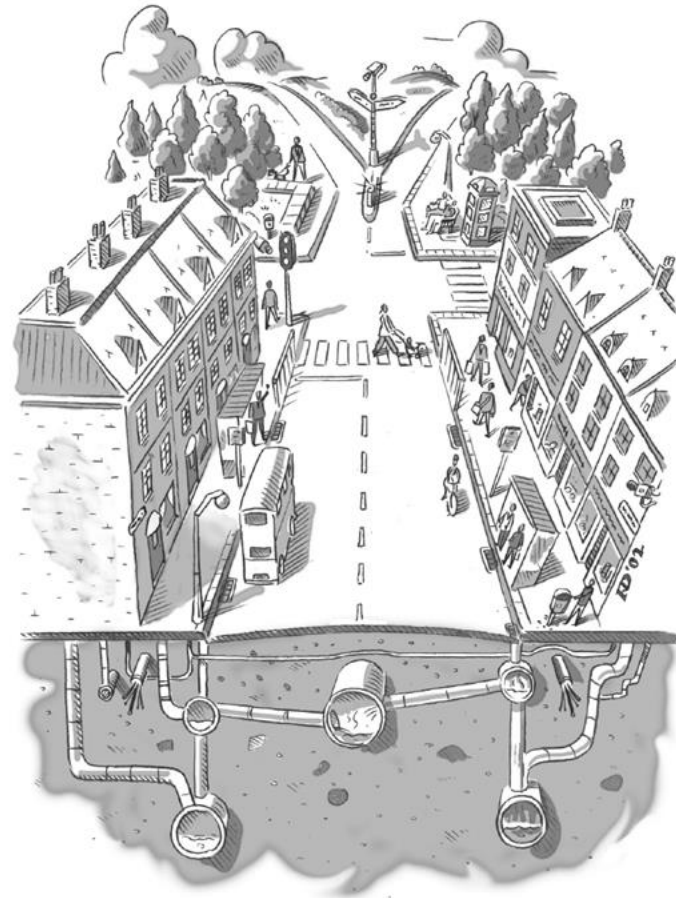
OVER
9,000
STREETS

Why did the council choose a PFI contract?

- Best Value Review in 2000:
 - One star Highways service
 - Unlikely to improve without significant capital investment
 - Cost of reactive maintenance escalating
- Considered other methods:
 - Reduction in other council services
 - Prudential borrowing to raise the money
 - Joint venture
 - Bond issue
- PFI was the only mechanism that provided a grant (£51m per annum for 25 years)

Project scope

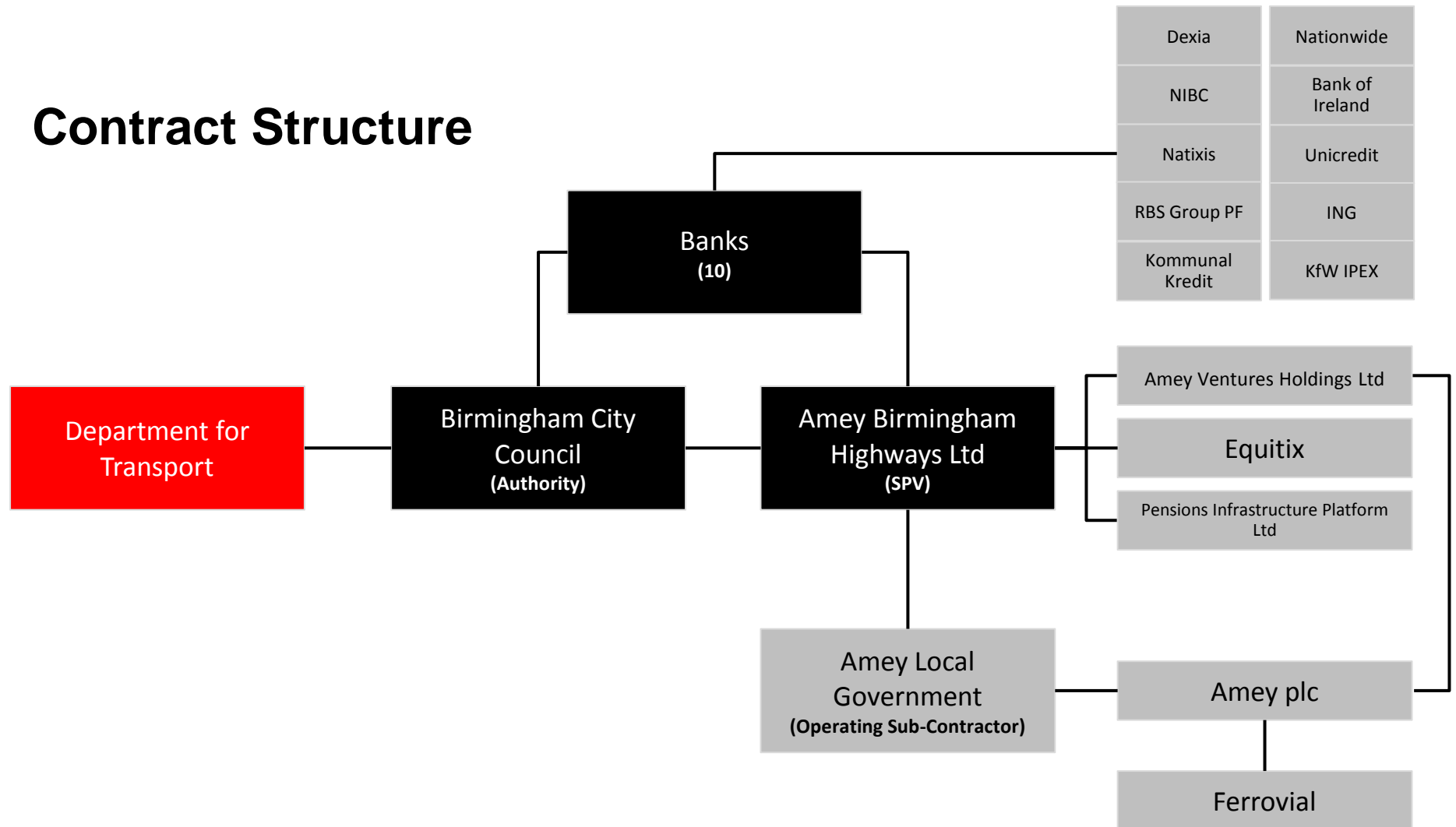
- £328m refurbishment of the highway infrastructure, £2.7bn project
- Assets include:
 - Roads
 - Footways
 - Street lighting
 - Traffic signals
 - Highway trees
 - Highway drainage
 - Road markings
 - Street furniture
 - Structures, bridges and tunnels



Contract background

- 25 year contract, commenced 7 June 2010
- Base cost is £79,435,000 per annum
- 60% per annum of the Unitary Charge was paid at contract start, reflecting a network needing investment
- This increases:
 - Annually, with indexation (RPIX)
 - By 4% as each of ten Core Investment Period Milestones are completed (adding a further 40%)
 - As assets are added to the network (e.g. new private developments)
 - If the Service Provider reduces the council's energy bill below that forecast
- It is decreased by:
 - Failure to perform to the required standards ("Adjustments")
 - Assets removed from the network
 - If the Service Provider fails to meet the forecast energy consumption
 - Replacement of slabbed Footway with bituminous Footway
- Total contract cost £2.7 billion (£2.4 billion plus £0.3 billion client and retained costs)

Contract Structure



Key deliverables

- Refurbishment of highway assets to national standards
- Amey estimated a minimum of £328m of investment over five year Core Investment Period (CIP), including a minimum of:
 - £176m Carriageway and Footway
 - £76m Street Lighting
 - £30m Bridges and Structures
 - £35m Tunnels
 - £8m Traffic Signals and Urban Traffic Control
- 20 year lifecycle period
- 25 year operational period, from day one

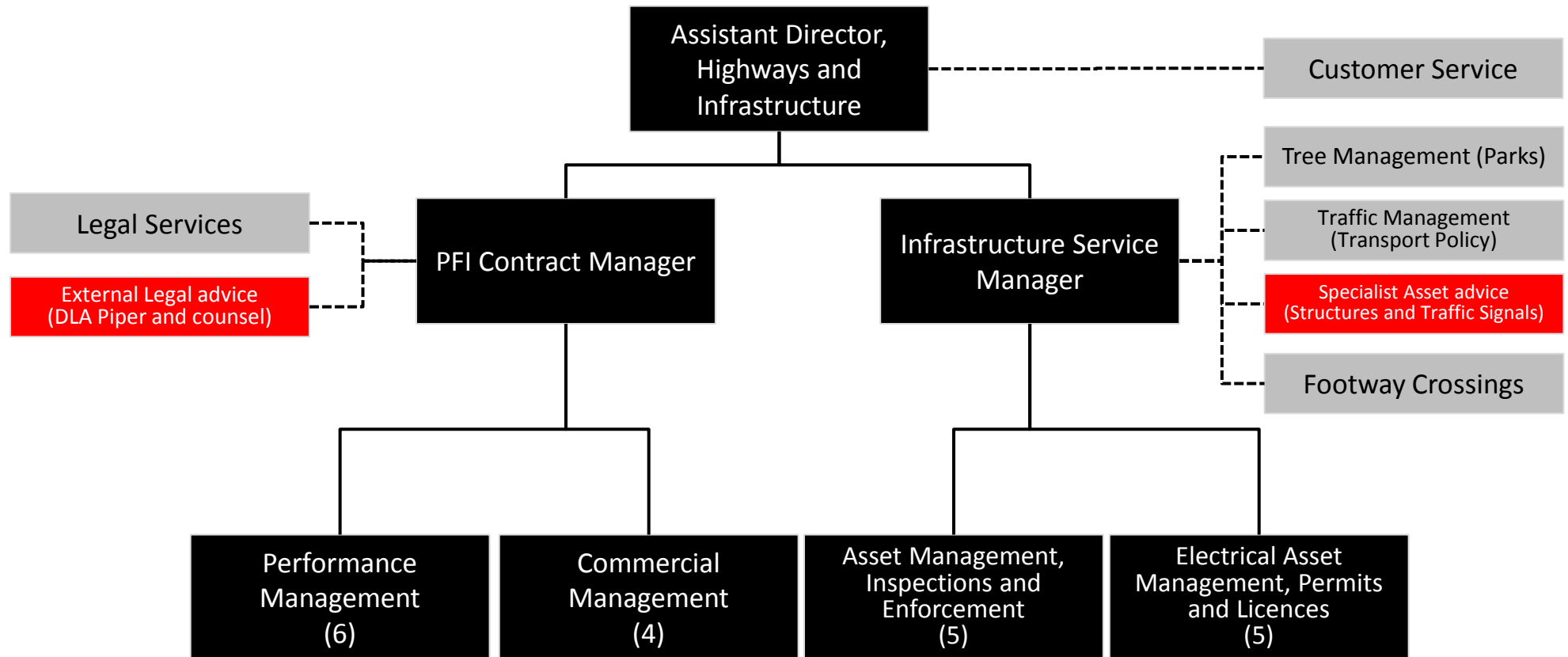
Risks transferred

- Key risks are transferred to Amey, protecting the council to a significant extent.
- These include:
 - The cost of **delivering the services** under the contract and **meeting its performance requirements**.
 - Managing **suppliers and the cost of materials** to provide the services.
 - The cost of **repairing damage by third parties** to the infrastructure assets
 - **Liability for damage to third parties** caused by highway infrastructure
 - The cost of **defending claims** for not maintaining the roads in a safe condition.
 - The cost of **energy consumed** by street lights and other assets, which is capped at a profile.
 - Changes in **traffic and climate / weather** over time

Monitoring

- Self monitoring contract:
 - Service Provider has obligations to monitor its service delivery
 - Performance of the services is recorded in a Management Information System
 - Service Provider reports on performance monthly
 - Deductions may be applied for Reporting Failures
- Independent Certifier (Atkins) assesses completion of Core Investment Period Milestones
- Client team within Highways, covering contract management and technical professionals

Client team



Our contract management approach

- 'Thin' client team, supplemented with external specialists
- Inspections and audit approach: sampling, not duplicating
- Independently assessed:
 - Procurement contract management audits
 - Best practice with Local Partnerships

Myth buster

Common Amey myth	Truth
“The contract is punitive / too difficult”	Only if you don’t deliver substantively. Addressing Core Investment Work and backlogs is critical to this. A highways service is challenging, but Amey’s performance has been poor.
“Amey has delivered the investment it was obliged to”	Amey must deliver the Output Specification requirements, whatever it costs. There is no limit to this.
“The council hasn’t approved our programmes”	Programmes submitted by Amey: (i) don’t comply with contract requirements and (ii) do not contain any surfacing works.
“Amey’s obligation is to keep the roads safe”	Yes, but it is also to provide proper repairs and proactive investment to the Output Specification.



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