



APPENDIX 3

Expression of Interest - Isle of Wight Transport PPP

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Executive Summary

The Council is responsible for the management and maintenance of some 792 kilometres of highway, 827 kilometres of public rights of way and has a revenue budget of £5.8 million for the provision of the its Highways service and an additional £3 million Capital budget for road structural maintenance through the Local Transport Plan..

Best Value reviews undertaken in 2001 and 2002 identified the following:

- That the roads are in a poor condition despite being the public's highest priority for extra spending
- Insurance claims have risen significantly over the past three years
- Being an Island, the Council has significant problems both in the immediate and long term with coastal erosion and substantial monies are required to protect the integrity of the network.

2003 NRMCS data shows that the Council has a BV96 on its Principal Road Network of 12.1% (42.2% by Deflectograph structural survey), BV97a of 45.7% on its secondary network and a BV97b of 37.3 on its Tertiary network. These non-principal road figures are amongst the worst in England and Wales.

There are currently 7 roads on the Island with weight restrictions, mostly in connection with structures but a large number of roads have 6' 6" width restrictions. The length of road affected is some 156 kilometres. Without funding, an additional 9 roads, with a total length of 24 kilometres will either have to be closed or restrictions placed upon them.

These weight and width restrictions are seriously inhibiting the economic growth of the island and without further funding the number of weight restrictions will have to be increased causing increased pressure on businesses and the communities they support.

Of the 13,300 street lighting columns some 2,500 are over 30 years old and in need of replacement.

A preliminary options appraisal and qualitative assessment has been undertaken and this indicates that a holistic approach to the provision of the highway service appears to offer the best value. It is therefore, anticipated that the scope of the proposed reference project will include rehabilitation of the highway network, replacement of life expired street lighting columns, strengthening of bridges to current assessment criteria, life cycle maintenance, routine and cyclic highway maintenance, network management, decriminalisation of parking, maintenance of coastal protection and landscape management.

All the above functions lie within the Engineering Services department and there are not likely to be any staff issues.

This initial evaluation suggests a project cost of £793 million against a Public Sector Comparator of £832 million and a benefit Cost ratio in excess of 3.5. The PFI Credit required would therefore be £213 million.

1 Background

The Isle of Wight Council is a unitary authority in the South of England. The Island has a resident population of some 133,000 but this figure is increased several fold during the summer tourist season.

The Council is responsible for the management and maintenance of some 792 kilometres of highway, 827 kilometres of public rights of way and has a revenue budget of £5.8 million for the provision of its Highways' service and an additional £3 million Capital budget for road structural maintenance through the Local Transport Plan..

Best Value reviews undertaken in 2001 and 2002 identified the following:

- That the roads are in a poor condition despite being the public's highest priority for extra spending
- Insurance claims have risen significantly over the past three years
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There are some clear distinctions between the Isle of Wight and many other local authorities and being an Island brings particular benefits and difficulties for both internal and external transportation. These issues could be broadly described as follows:

- Rural transport issues - cost, availability
- High unemployment - seasonal variation
- Increased cross-Solent traffic - increased numbers of vehicles arriving on the Island
- Changing distribution patterns - change from bulk freight to lorry distribution
- Tourism development - impact of cars in summer months
- Social exclusion - inability to access facilities, goods and services
- Cross-Solent Links - frequency and cost

1.1 Sustainable Highway Management and Maintenance

The most important area of change is the need for highways management and maintenance is to meet the challenge of sustainability. This requires that the wider economic, social and environmental implications of both the service and its individual schemes are first of all understood, and then modified as far as practicable to ensure Best Value outcomes for the community.

It is also applied in terms of the financial and operational sustainability, ensuring that investment and operational resources are provided to avoid the progressive deterioration of the asset.

1.2 Asset Management Regime

The arrangements for highways management and maintenance need to be set within the context of an overall asset management regime with a focus on lifecycle costing, long term maintenance and

management strategies, level of service measurement and monitoring, sustainable use of physical resources and continual improvement.

1.3 Aims

Isle of Wight Council in its Best Value Review of its Highway Maintenance Service, identified that the backlog of rehabilitation needed to deliver the required level of service is well beyond current budgetary resources

Following this review the Council developed a Best Value Service Improvement Plan, which addresses the issues raised in the review. This Improvement Plan seeks to improve the level of service in the following areas:

- the introduction of a whole life costing approach to improving the highway network asset including street lighting
- to seek a major cash injection to remove at least the backlog of planned highway defects / repairs
- to improve customer care, communication and engagement especially with the public in order to increase understanding, raise public perception and be more accountable to local people

In order to develop partnerships and promote closer working and harmonisation, there needs to be a continuation of the organisational and cultural shift away from traditional service boundaries. The Council believes this will deliver real benefits to the public in the future. The level of deterioration and backlog in the highways infrastructure stock has also been determined as part of this process.

However, in order to achieve the objectives of the Highway Maintenance Best Value Review Service Improvement Plan substantial capital investment is required to restore the highway asset to a fair and reasonable but affordable and sustainable condition.

2 Strategic Context and Need

In the case of UK government policy, areas of relevance include integrated transport, environment, mobility, local transport, economic development, roads, road safety and crime reduction. In addition, there is innovation in the means of procuring policy solutions with an increasing recognition that partnership with the private sector can yield benefits. Such benefits are achieved through allocation of risk, which gives the incentive to develop creative solutions with regard for the long term, drawing on the experience of private sector partners in planning, development and risk mitigation whilst maintaining public control on policy initiatives.

2.1 Local Policy and Implementation

The first full Local Transport Plan (LTP) for the Isle of Wight was submitted in 2001 and presented a five-year programme for the development of the transport infrastructure on the Island.

The Transport Objectives within the LTP are :

- Integration - to adopt an integrated approach to transport and create easy access between different transport modes
- Unification - to ensure that land use planning and transport planning work together

- Accessibility - to improve access for all sectors of the population
- Environment - to protect and enhance the Island's natural and built environment
- Economy - to support and encourage the Island's economic development
- Safety - to improve the health and safety of those on the Island.

2.2 Roads Maintenance Policy

Under the Best Value Service Improvement Plan the Council is seeking to optimise the provision of the highway maintenance service by improving the condition of the highway infrastructure and minimising the ongoing cost of maintenance. The Council is also investigating ways of achieving the maximum service delivery possible out of the limited highway maintenance funding available.

2.3 Local Agenda

Under the Local Government Act 2000 (LGA 2000), the Council produces a community strategy for promoting and improving the economic, social and environmental well-being of their communities, and so contribute to the achievement of sustainable development of the United Kingdom. The LGA 2000 will lead to political changes in the Council and it will be important both constitutionally and practically to accompany these changes with greater devolution. Local people will have greater influence over the services and decisions that matter in their neighbourhoods.

It is intended that the preferred option will be the Base Line level of service provision and that any improvements to the level of service required at a local level will be implemented through the change mechanism set out in the contract terms and conditions, thus maintaining local choice and determination.

2.4 Scope of the Problem

2003 NRMCS data shows that the Council has a BV96 on its Principal Road Network of 12.1% (42.2% by Deflectograph structural survey), BV97a of 45.7% on its secondary network and a BV97b of 37.3 on its Tertiary network. These non-principal road figures are amongst the worst in England and Wales

There are currently 7 roads on the Island with weight restrictions, mostly in connection with structures but a large number of roads have 6' 6" width restrictions. The length of road affected is some 156 kilometres. Without funding, an additional 9 roads, with a total length of 24 kilometres will either have to be closed or restrictions placed upon them.

There are some 176 bridges on the island, including highway, private, Rights of Way and Network Rail. The condition of some 35 of these bridges is a cause for concern. In relations to the size of the network there are a large number of retaining walls, some 596 in total and a number of these are a cause for concern.

These weight and width restrictions are seriously inhibiting the economic growth of the island and without further funding the number of weight restrictions will have to be increased causing increased pressure on businesses and the communities they support.

Of the 13,300 street lighting columns some 2,500 are over 30 years old and in need of replacement.

3 Objectives

In the context of these broader objectives and the demonstrated need for dependable road access to the Isle of Wight, the project's objectives can be summarised as:

- (a) rehabilitation of the Road Network such that it is capable of carrying existing and projected future capacities without parts of it being restricted due to weak structural condition or the condition of its surface
- (b) implementation of an affordable and sustainable maintenance regime
- (c) policy flexibility
- (d) flexibility to meet the changing demands on the highways asset
- (e) implementation of best value regimes to deliver long term value for money
- (f) optimisation of lane availability and improved accessibility to public transport
- (g) safe passage (including public and personal safety)
- (h) reduction in the number and value of liability claims against the Council
- (i) reduction in social exclusion, resulting in easier access to facilities and services.

4 Appraisal of the Project and Procurement Options

In order to establish options, both the scale of works and the scopes within those areas have been examined.

The scale options considered were:

- Primary network only
- Primary roads and selected secondary roads
- Primary and all secondary
- Complete network

In terms of scope options considered were

- Rehabilitation only
- Rehabilitation and selected other services where economies of scale across the complete network would provide added value (For example, winter maintenance. Emergencies, and structures maintenance)
- All services

The options have been assessed according to the following criteria:

- Affordability
- Safety
- Sustainability
- Policy flexibility
- Fit to Objectives
- Deliverability of Options
- Market Testing

Taking into consideration the Council's relative weighting of these criteria, a preferred option was selected for further assessment and financial analysis. A preliminary options appraisal and qualitative assessment has been undertaken and this indicates that a holistic approach to the provision of the highway service appears to offer the best value.

5 The Reference Project

It is therefore, anticipated that the scope of the proposed reference project will include:

- Rehabilitation of the highway network
- Replacement of life expired street lighting columns
- Strengthening of bridges to current assessment criteria
- Life cycle maintenance
- Routine and Cyclic highway maintenance
- Network Management
- Landscape management

All the above functions lie within the engineering services department. All staff have been kept informed of the PFI project and have been consulted on the scope.

5.1 Performance Specification

The performance specification proposed for this project will follow that outlined in the 4Ps Highways procurement pack and based on a level of service based on a Network Condition Index to cover the structural health of the highway asset and performance Standards to cover the day to day level of service based on the Best Value Code of practice for Highway Management and Maintenance.

5.2 Payment mechanism

Similarly, the payment mechanism will be based on the 4Ps Procurement Pack and based on a Unitary Charge related to the Network Condition index with abatements and service points for lack of compliance with the various performance standards.

5.3 Investment required

The investment required to halt this decline and to return the Council’s Highway Infrastructure to a reasonable and sustainable condition is beyond the scope of the existing maintenance and capital maintenance funding. The timing of such investment is also important, as delayed intervention results in significantly higher costs, increased scope and complexity of work, lane unavailability and associated delays whilst no investment would render the network unusable within the medium term.

The Council believes that the investment required is as indicated in **Table 5-1**

Highway element	Investment Required (£ Millions)
Carriageway Structural backlog	54.45
Safety Surfacing	45.855
Street Lighting Backlog	5
Bridges and other Structures	11.695
Footways Structural Backlog	13.430
Drainage	25
Footways resurfacing	1.685
Car Parks	3
Total Funding required	160.115

Table 5-1 : Highway Investment Required

5.4 Financial Appraisal and Value for Money

The Council has considered various funding methods for this project including

- Increased Capital Borrowing
- Capital Borrowing under the Prudential Code

- Road / Infrastructure Bond
- PPP arrangements such as a Joint Venture
- PFI

Isle of Wight Council has undertaken the Initial Financial Appraisal etc in line with the requirements of the Green Book. In considering the likely costs of the project, the Council has taken into account the Optimism Bias methodology contained in HM Treasury's Green Book. An Optimism Bias of 44% has been applied to the Core Investment period and 25% to the Operation and Maintenance phase.

This initial evaluation suggest a project cost of **£793 million**

5.5 PFI Credits

The PFI Credit required is therefore, likely to be of the order of **£213 million** taking into account both the funds required to deal with the backlog and future life cycle intervention. This estimate is on the basis of **no** Local Transport Plan Funding for the services covered by the scope of the proposed project over the period of the project. (I.e. on the say PFI Credit calculation basis as Birmingham City's Street Scene PPP). The estimate takes into account the income that is likely to be generated by decriminalisation of parking which will help reduce the PFI Credit requirement. If the Council introduce an Island-wide parking permit, which it is currently considering, the PFI Credit need will be reduced by an additional £15 million.

5.6 Public Sector Comparator

A provisional Public Sector Comparator for the reference project has been calculated in accordance with the HM Treasury Value for Money Assessment and standard model and is **£832 million**.

5.7 Benefit Cost Ratio

An initial GOMMMS appraisal has been undertaken and the preferred option provides a Benefit Cost Ratio significantly in excess of 3.5.

5.8 General PFI Criteria

The Council believes that it meets all the general PFI criteria and specifically:

5.9 Local Government (Contracts) Act 1997

The Council believes it has the authority under the Highways Act 1980 and the Local Government (Contract) Act 1997 to enter into a PFI Contract for the delivery of its Highway Service. The Council does not believe that there are any planning or legal issues that would delay procurement of a PFI Contract.

5.10 Accounting Standard : FRS5

The first step in the assessment is to consider whether the contract could in fact be separated into agreements relating separately to services and to the asset and its financing. If this is the case then SSAP 21 applies. If it is not possible to separate the benefits from the asset itself and those from services provided then FRS 5 applies. The contract is likely to be for a term of 25 years and this applies to all services to be provided. There is also no opportunity to renegotiate any part of the core services separately from the whole.

The contract is therefore not separable. Thus, it should be accounted under FRS 5 rather than SSAP 21.

Whilst different projects vary in the particular risks which are significant, a number of generic risks have been identified for the assessment of the accounting treatment of assets under FRS. The Council’s initial analysis suggests that the highway asset would be a PFI Contractor asset for the term of the concession agreement and thus the project satisfies the requirements of FRS5.

Risk	Council	PFI Contractor	Comment
Demand		✓	Significant over the term
Third Party Revenue	✓	✓	
Design Risk		✓	
Penalties		✓	
Cost Changes		✓	
Obsolescence	✓	✓	Shared
Residual Value	✓	✓	

Table 5-2 : Expected Accounting Treatment

6 Project Delivery Arrangements

6.1 Strategic Transport PPP

The Transport White Paper stressed the importance of transport integration with sustainability as the key. The Council considers this proposed project as only the first stage in a wider Strategic Transport PPP which eventually brings together Highways, Bus and Rail, Ports and Ferries to provide a totally integrated solution to the Island’s transport problems.

The Council recognises the impact transport can have on the way we live including economic development, health, the environment and the creation of sustainable development. For the Isle of Wight, transport is particularly important and its economy is heavily reliant upon the level of tourism generated by the mainland, which in turn is dependent on the quality of transport links, and equally the ability of the Island to generate economic investment is directly related to the ease of communication.

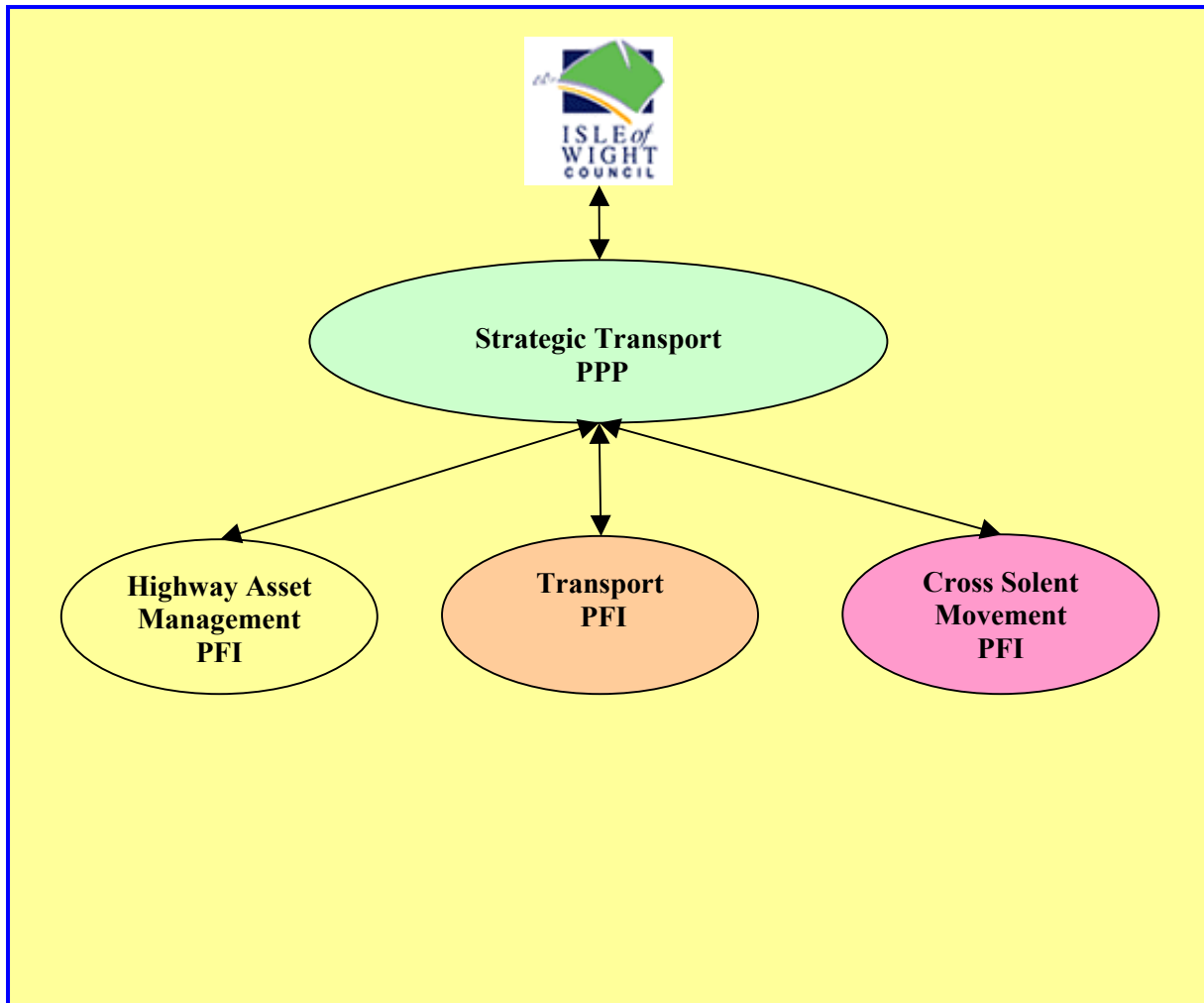


Figure 6-1 : Strategic Transport PPP

Figure 6-1 outlines the Council's vision of a Strategic Transport PPP which is intended at this stage to be a non-equity Public private partnership to develop, co-ordinate and monitor the provision and performance of transport facilities such that a truly integrated service can be achieved.

To successfully develop a project as a PFI project it is essential to have:

- Commitment from the Council and its Members
- Staff and advisers who can combine experience of the key issues and market expectations regarding risk allocation
- Resources available at the peak period in the development process
- A realistic programme and commitment to meet the programme
- A bankable set of project documents and the experience and ability to negotiate terms
- An experienced and capable Contractor.

6.2 Isle of Wight Council’s Experience of PPP/PFI Projects

Isle of Wight Council recognises that there are major benefits to be gained by employing innovative processes in discharging its statutory duties as a Local Authority. The Council has demonstrated its enthusiasm for PFI projects in its successful development of their Integrated Waste Management PFI which won “Best long running operational scheme” in the Public Private Finance Awards 2004.

6.2.1 Key Staff

The Council plans to deploy key staff on the development of this roads project in order to derive maximum value from the experience gained to date. The full time project board will consist of:-

- Project Sponsor:** To be confirmed
- Project Director:** To be confirmed
- Project Manager:** To be confirmed
- Legal Lead:** To be confirmed
- Financial Lead:** To be confirmed
- Technical Lead:** To be confirmed
- Procurement Lead:** To be confirmed
- 4Ps Representative:** To be confirmed

6.3 Proposed Advisors

The Council intends to procure experienced Technical, Legal, Accounting and Financial Advisors once the project has been approved. In addition, it is intended to request inputs as required from IW Council officers in areas such as Human Resources, Communications and Insurance & Risk Management. Outside bodies involved would include GOSE and District Audit.

6.4 Procurement Budget and Resouces

The Council is aware of the significant cost and resources required during the procurement process.

6.5 Programme

Owing to the nature of this project, the Council expects that reasonable periods should be allowed both for tendering and for the negotiations leading to the preferred bidder stage.

The proposed programme is:

- May 2005 Anticipated date of invitation to submit EOI
- July 2005 Anticipated date to proceed with OBC
- October 2005 Submission of OBC
- December 2005 PRG Approval
- January 2006 Appointment of Financial, Legal and Technical Advisers
- January 2006 Publication of OJEU Notice
- April 2006 Issue of PQQ & ISOP documents
- August 2006 Issue of ITN Document
- December 2006 Submission of tenders
- February 2007 Issue of Best and Final Offer
- May 2007 Selection of preferred bidder
- August 2007 Financial Close
- October 2007 Contract Commencement date

Isle of Wight Council is mindful of the proposed project time-scales and intends to initiate the procurement of its advisors such that they can be appointed as soon as the project has received the necessary approvals.

7 Councillor Commitment and Consultation

The Council spends 109% highways element of SSA on roads and highways. This amounts to some £5.8 million per annum. The Council supplements its SSA with income generated from Car Parking to provide its highway service.

The Council is consulting with staff and unions, namely UNISON and intends to continue this consultation throughout the project development period.