



**Local Government Private
Finance Initiative (PFI):
Highway Maintenance (HM)
Pathfinder Scheme**

**Isle of Wight
Expression of Interest**

September 2006

Engineering Services,
Enterprise House,
St Cross Business Park,
Monks Brook,
Newport,
Isle of Wight,
PO30 5WB



Isle of Wight Expression of Interest

Local Government Private Finance Initiative:

Highway Maintenance Pathfinder Scheme



List of Contents Page

Forward – by leader of The IW Council – Andy Sutton.....1

Partners Statement of Commitment.....

Executive Summary.....2

1 Project Description.....4

1.1 Local Authority Objectives.....4

1.2 Option Appraisal.....4

1.3 Project Outline.....5

1.4 Local Policy Context.....5

1.5 Linkage to Government Policies.....6

1.6 Political Support.....6

2 Identifying Project Need.....7

2.1 Evidence of Backlog.....7

3 Value for Money and Affordability8

3.1 Value for Money.....8

3.2 Affordability.....9

3.3 NATA Analysis.....9

3.4 Commercial Interest.....9

3.5 Procurement.....9

4 PFI Credits.....10

4.1 PFI Criteria.....10

4.2 PFI Credits Required.....10

4.3 Efficiency Savings.....10

4.4 Third Party Income.....11

4.5 Five Year Expenditure.....11

5 Risk.....11

5.1 Risk Analysis.....12

5.2 Shared Risk.....12

6	Stakeholder Consultation.....	12
7	Project Management.....	13
7.1	IW Council's Experience of PFI Projects.....	13
7.2	Project Planning.....	13
7.3	Project Board.....	13
7.4	Project Team.....	14
7.5	Proposed Advisors.....	15

Appendices

A	Project Plan and Timetable
B	Option Appraisal Matrix
C	Accounting Standards
D	PFI Credits Calculation
E	NATA Appraisal Tables
F	WDM Report
G	Linkage to Government & Local Policies and Plans
H	Project Team

Tables

Table 2-1 : Age of Street Lighting Network

Table 2-2 : Highway Investment Required

Table 4-1 : Highway Maintenance Expenditure: Five Year Analysis

Forward – by Leader of the IW Council – Cllr Andy Sutton

‘Our future vision for the Isle of Wight includes, a regeneration of its economy, leading to greater employment opportunities and better standards of living, education and support for Islanders, whilst retaining the beauty of its natural landscape and providing a first class destination for tourists.

As you will see from the evidence presented in this document our transport connections and infrastructure are vital to our development. Our 2020 Vision requires a major investment in our roads following years of limited expenditure and subsequent decline. This investment is needed to support economic regeneration and the future as seen in the regional South East plan, and our forthcoming Local Development Framework, the Island Plan.

Our bid for a private finance initiative and Government credits to assist the rehabilitation of our roads is therefore a cornerstone of our strategy for regeneration and the future development of the Island. It has the total support of members of the IW Council, the business community and the people who live on the Isle of Wight.

We request the Government sees our expression of interest as part of our overall strategy to develop the Isle of Wight. We also hope that it can support it with the enthusiasm that we all feel for this very worthwhile project that provide opportunities for the Isle of Wight in so many ways.’

By the IW Unison Branch Secretary- Mark Chiverton

‘On behalf of its members, the local Unison Branch fully supports this bid for PFI money as representing an unprecedented opportunity to develop the transport infrastructure on the Island. We will plainly wish to be actively involved to ensure that this investment can also enhance employment opportunities and conditions.’

Partners Draft Statement of Commitment

'We, the undersigned individuals and organisations, believe that the Isle of Wight deserves a modern and well maintained highway network to deliver our vision of a progressive Island built on economic success, high standards and aspirations for a better quality of life for all. We recognise there is a substantial backlog of repairs required to be completed to bring the network back to an acceptable level, and strongly support this proposal to secure a PFI for Highway Maintenance which the Council considers to be the only affordable option for the Isle of Wight.'

Executive Summary

In February 2006 the Department of Transport (DfT) invited Expressions of Interest (EOI) from local authorities wishing to procure a Highways Maintenance PFI project. This document comprises an EOI from the Isle of Wight Council (the Council) and presents the case for the approval of a Highways Maintenance PFI scheme.

Background

- The Council is a Unitary Authority off the South coast of England. The Island has a resident population of some 134,900 (Mid 2002) but this figure increases to an estimated 250,000 during the summer tourist season.
- The Council is responsible for the management and maintenance of some 822 kilometres of highway, 827 kilometres of public rights of way and has a revenue budget (2006-07) of £5.5 million for the provision of its Highways' service and an additional £2.03 million Capital budget (2006-07) for road structural maintenance through the Local Transport Plan.

Case for Investment and Preferred Option

The Council have undertaken Best Value Reviews in 2001 and 2002 that clearly identified that the Isle of Wight has a road network in poor condition and had seen a significant rise in insurance claims over the past three years. While as an Island, there are significant problems both in the immediate and long term with coastal erosion and substantial monies are required to protect the integrity of the network.

Evidence of need for the PFI can be seen in the following data:

- In 2004/05 data showed that the Council's figures for BV96, BV97a and BV97b placed the Isle of Wight in the bottom quartile for local authorities in England and Wales.
- In a recent comparison using the revised indicators BV223, 224a and 187, the Isle of Wight was ranked worst among local authorities in the South East of England.
- Currently 7 roads (156 km) on the Island have weight restrictions and a large number of roads have width restrictions. Without funding, an additional 9 roads (24km) will either have to be closed or restrictions placed upon them.
- These weight and width restrictions are seriously inhibiting the economic development of the Island and without further funding the number of weight restrictions will have to be increased, putting pressure on businesses and the communities they support.
- Of the Council's 11,700 street lighting columns an estimated 5,534 (47%) are over 30 years old and in need of replacement.

A preliminary options appraisal and qualitative assessment (see Appendix B) 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 PFI will embrace a 'fence to fence' approach and will include:

- Rehabilitation of the highway network;
- Strengthening of bridges to current assessment criteria;
- Whole life cycle maintenance;
- Replacement of life expired street lighting columns;
- Routine and cyclic highway maintenance;
- Network management;
- Street Cleansing.

All the above functions lie within the Council's Engineering Services department and there are not likely to be any staff issues. The Staff have been kept fully informed as the PFI has been developed through workshops and regular communications with the PFI project team and are fully supportive of the initiative.

This initial evaluation suggests a project cost of £??? million against the Treasury Quantitative Evaluation Tool of £??? million and a Benefit Cost Ratio (BCR) in excess of ?.?. Our analysis shows the PFI Credit to be £??? million.

1 Project Description

1.1 Local Authority Objectives

The vision for the Council is to support a progressive Island built on economic success, high standards and aspirations for a better quality of life for all. In particular the council has identified five corporate objectives, two of which are directly dependent on a well maintained highway infrastructure, these are:

- 'Sustainable regeneration and development of the Island'
- 'Creating safer and stronger communities'

In the context of these Corporate objectives and the demonstrated need for a local highway network capable of supporting the Island's economy, the project's objectives can be summarised below:

- (a) Rehabilitation of the Highways network to an efficient, safe and sustainable level able to accommodate future traffic growth;
- (b) Implementation of an affordable and sustainable maintenance regime;
- (c) Flexibility to meet the changing demands on the highways asset;
- (d) Implementation of best value regimes to deliver long term value for money;
- (e) Improved traffic management;
- (f) Optimisation of lane availability and improved accessibility to public transport;
- (g) Improved community safety;
- (h) Reduction in the number and value of liability claims against the Council;
- (i) Reduction in social exclusion, resulting in improved accessibility to facilities and services.

1.2 Option Appraisal

In order to establish options, both the scale of works and the scopes within those areas have been examined in detail by the Council and its advisers. The scale options considered were:

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

In terms of the scope of the PFI the following options were considered:

- Rehabilitation only;

- Rehabilitation and selected other services where economies of scale across the complete network would provide added value;
- All relevant services.

The options have been assessed based on the following criteria: affordability, safety, sustainability, policy flexibility, fit to objectives, deliverability of options and market testing. The Option Appraisal Matrix is included in [Appendix B](#).

Taking into consideration the Council's relative weighting of these criteria, a preferred option was selected for further assessment and financial analysis. This was approved at a meeting of the IW Council's Executive committee on 20th April 2005; the relevant paper and minutes is available online at www.iwight.com.

The Council's consultants Mott MacDonald have undertaken a preliminary options appraisal and qualitative assessment and this indicates that a holistic approach to the provision of the highway service appears to offer the best value.

1.3 Project Outline

The Council anticipates that the scope of the proposed PFI will be a 'fence to fence' approach and will include the following areas of work:

- Rehabilitation of the highway network;
- Strengthening of bridges to current assessment criteria;
- Whole life cycle maintenance;
- Replacement of life expired street lighting columns;
- Routine and cyclic highway maintenance;
- Network management;
- Street Cleansing.

1.4 Local Policy Context

The proposed PFI sits within the objectives of a range of local strategies and plans seeking to deliver a long-term vision for how the Island is developed (see [Appendix G](#)). The Local Strategic Partnership, Island Futures, have set the overarching '2020 Vision' to 'build an Island with a future' which is contained within the Island's Community Strategy.

This informs the Local Development Framework (LDF), the 'Island Plan' that provides the broad planning policy for the Island. Feeding into the LDF is the second Local Transport Plan (LTP 2006-2011) for the Isle of Wight; this was submitted in March 2006. The PFI will seek to deliver the Council's aspirations in LTP2 for effective highway asset management.

Within the IW Council's regeneration strategies and initiatives derived from the over arching Area Investment Framework (AIF), the PFI has a significant role to improve the local infrastructure and support economic regeneration of the Island. While at the same time the Highways network is a key component of creating a quality public realm that will underpin work to deliver Council strategies such as the Tourism Development Plan and Crime &

Disorder Strategy. Issues of sustainability within the PFI project will be addressed in line with the Council's commitments as part of Agenda 21.

At a corporate level the PFI seeks to deliver two of the Council's five key objectives 'to drive the sustainable regeneration and development of the Island' and 'to create safer and stronger communities'. Within the recently agreed Local Area Agreement it is a key priority for improving the Island's infrastructure through the delivery of economic development objectives.

The 'Aim High Change Management' plan seeks to make the Council a high performing organisation and the PFI is seen as both a new method of service delivery and 'change agent' for improving service delivery to residents.

1.5 Linkage to Government Policies

In line with the Government's agenda for public service reform, 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 a better 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, project development and risk mitigation whilst maintaining public control on policy initiatives. A partnership will enable the Council to draw on private sector approaches to business development, asset life-cycle management and supply chain management. The Council has placed this approach at the heart of its recently adopted 'Aim High Change Management' plan.

In the case of UK government objectives there are linkages to a range of departmental policy areas and regional plans and strategies detailed in [Appendix G](#).

1.6 Political support

There is a broad consensus of support for the proposed PFI among Councillors across the political divide, and supported by the local MP. It is seen as central to delivering the Council's "Aim High Change Management" plan for improving performance across the Council. The full Council voted on 22nd February 2006 to allocate £1.73 Million towards the costs and fees envisaged by the proposed PFI. This sum was identified after detailed discussions with Portsmouth City Council, Birmingham city Council and advice from professional advisors.

The Council is continuing to consult and engage with staff and the main union, UNISON, through workshops and regular updates from the PFI project team. This will continue throughout the PFI procurement process.

Stakeholder consultation during the recent Transport Best Value Review and the development process for LTP2 has highlighted the issue of highway maintenance as a priority for extra expenditure. There is strong stakeholder, staff and local union support for the PFI proposal.

2 Identifying Project Need

2.1 Evidence of Backlog

The Council has over a number of years systematically undertaken appropriate surveys and investigative works to establish the condition of the highways asset.

Results obtained indicate that the condition of the Island’s highway network is amongst the worst in England and Wales. The 2004/05 figures for BV96 were shown to be 65.4%, BV97a at 63.75% and BV97b at 62.95%. These figures showed a continued decline in the road network and placed the Isle of Wight firmly in the bottom quartile for local authorities (all, unitaries) in England and Wales.

Working with SECSIG on preliminary figures for 2005/06 using the revised indicators BV223, 224a and 187, the Isle of Wight was ranked worst among all local authorities in the South East of England.

Some 156 km of the highway network are subject to weight or width restrictions in connection with structures but a large number of roads have 6’ 6” (1.98m) width restrictions. It is estimated without adequate funding, an additional 9 roads, with a total length of 24 kilometres will either have to be closed or restrictions placed upon them in the near future.

These weight and width restrictions impact adversely on accessibility and impede economic growth of the Island. Without additional funding the number of weight restrictions will have to be increased causing increased pressure on businesses and the communities they support.

The Council maintains 14,300 items of illuminated street furniture including a network of 11,700 street lighting columns with an estimated 47% over 30 years old and in need of replacement. This network would also need to be modernised to meet current codes of practise in the provision of street lighting.

Age of Columns	No	%
0-20 years	3,032	25.9
21-30 years	3,117	26.7
31- 40 years	2,989	25.6
Over 40 years	2,545	21.8
Total	11,694	100

Table 2-1: Age of Street Lighting Network

The Council has also retained specialist consultants WDM Ltd to validate the extent and cost of dealing with the highway maintenance backlog and also to confirm the whole life cycle maintenance costs for the required service levels for the network during the proposed 25

year contract period. The Council believes that this is the first time this model has been used in England and Wales, a copy of the report is contained in [Appendix F](#).

This summer has also seen the completion of the Transport Asset Management Plan (TAMP) and the Highways Inventory. The TAMP has been prepared in partnership with Chris Britton Consultants to provide a knowledge based decision making process for the efficient management of the highway asset. The Highways Inventory has been prepared by John Reid Consultants and provides a complete, up to date register of all highway assets; this information is stored electronically using the latest digital national framework technology. Validation of the Inventory has been undertaken in-house by checking approximately 25% of the network.

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 investment required is shown in the table below, and the costs are set out in greater detail in [Appendix D](#).

Highway element	Total
Backlog	?
Whole Life Cycle	?
Operating Costs	?
Total PFI credits required	?

Table 2-2: Highway Investment Required

3 Value for Money and Affordability

3.1 Value for Money

To demonstrate the PFI project would provide value for money for the public sector the Council will seek to compare the price of each PFI option with a benchmark equivalent public

sector price generated through the use of the Treasury Quantitative Evaluation Tool. For each option the model shows % of headroom showing that it would be more expensive to deliver in the public sector than through a PFI.

3.2 Affordability

The affordability is then determined by comparing the estimated PFI Unitary charge with the funding available. The PFI Unitary charge is estimated in [Appendix](#) , the available funds will come from the PFI Credit and the Council's revenue resources.

3.3 Commercial Interest

The Council has undertaken soft market testing, presenting the proposed PFI with various scopes of services to be included to five international contractors with PFI experience; their feedback has influenced the final content and scope of the proposal. In particular, the results of the soft market testing indicated a holistic "fence to fence" approach was likely to provide the best value for money model by removing potential conflicts and ensuring one contractor was responsible for all highway related maintenance activities. Street cleansing was identified as an important element of work to be included in-scope. Following positive response from potential contractors the Council will hold a series of workshops with these companies and their advisors to further explore the opportunities, responsibilities and implications offered by a PFI on the Isle of Wight.

3.4 NATA Analysis

Mott Macdonald has carried a NATA economic analysis of the proposal, the summary tables for the 3 options are provided in [Appendix E](#).

3.5 Procurement Options

On 20th April 2005 the Council's then Executive Committee considered a report reviewing the various funding methods for what was termed at the time a Highways Asset Management PFI. The funding methods reviewed included:

- Increased Capital Borrowing
- Capital Borrowing under the Prudential Code
- Road / Infrastructure Bond
- PPP arrangements such as a Joint Venture
- Private Finance Initiative

The Council agreed on the basis of this report to pursue a PFI for its Highways Maintenance. Subsequently the 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 22% has been applied to the Core Investment period and 15% to the Operation and Maintenance phase.

This initial evaluation indicates a project cost of **£???** million

4 PFI Credits

4.1 PFI Criteria

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

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 Maintenance Service, this authority was confirmed by the Council's Executive meeting on 20th April 2005. The Council does not believe that there are any planning or legal issues that would delay procurement of a PFI Contract.

It is not possible to do an assessment of this project against FRS 5 at the Expression of Interest stage. However, we know that both Portsmouth and Birmingham have satisfied the requirements of FRS 5. Therefore, it seems reasonable for the Council's Highway Maintenance PFI project, which is similar in scope and risk allocation to meet these same standards.

4.2 PFI Credits Required

The PFI Credit required is therefore, likely to be of the order of **£???** 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** maintenance 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 same basis as the PFI Credit calculation of Birmingham City's Street Scene PFI).

4.3 Efficiency Savings

The Council is committed to a policy of creating partnerships with the private sector to deliver better public services on the Isle of Wight. However this approach will only go forward where clear advantages are identified for the Council. In other areas the Council has decided that a strategic transformation partner would be the best approach to work alongside the Council in initiating change in operating practices and procedures that will deliver higher performing and more effective public services.

A Highway Maintenance contract for this length and quality would allow for the full use of the following management and civil engineering tools:

- A PFI contractor's economies of scale in personnel, equipment, purchasing, finance;
- Asset management and investment based on whole life cycle maintenance techniques;

- An effective schedule of rates for the contractor to price up other responsibilities outside the scope of the PFI;
- Establishing a planned maintenance regime to replace the current reactive regime.

4.4 Third Party Income

The Council has examined in detail a number of areas that are likely to generate third party income. The Council will explore opportunities for generating third party income through advertising on street lighting columns, street furniture, highways structures and bus shelters. While the Council will pursue all appropriate third party income opportunities as part of the PFI procurement process, it does recognise a balance needs to be established to respect both the Island's environmental integrity and its established planning process.

4.5 Five Year Expenditure

The following table provides the figures detailing the Council's expenditure on highways over the past 5 years:

Year	REVENUE			CAPITAL		
	SSA/ FSS	Expenditure per RO	% Over/ Under	LTP Maintenance Settlement and Supplementary Approvals	Expenditure per LTP	% Over/ Under
	£000	£000	%	£000	£000	%
2001/2	4,026	4,522	12.32	2,900	3,151	8.66
2002/3	4,050	4,373	7.98	3,968	5,450	37.35
2003/4	3,818	4,424	15.87	3,863	4,654	20.48
2004/5	4,100	4,650	13.41	3,390	3,597	6.11
2005/6	4,122	4,976	20.72	2,942	4,287	45.72

Table 4-1: Highway Maintenance Expenditure: Five Year Analysis

The above table provides the evidence that the Council has consistently spent up to FSS on the highway network, and has allocated additional expenditure from other income sources to essential highway work. The Council has spent over the past five years on average 114.06 % of FSS on its highway network.

5 Risk

The implementation of a Highways Maintenance PFI will reduce the risk of claims resulting from the poor quality of the road network and their link to traffic accidents and carriageway trip and damage claims.

5.1 Risk Analysis

The Council have examined the risks of the proposed PFI using the expertise of the Council's Risk & Insurance Manager and in line with the Council's agreed Risk Management Strategy. A specific risk management strategy is being designed and will be implemented to ensure that risks are managed both at a project and corporate level with respect to the proposed PFI. As part of this process a comprehensive risk register has been established for the proposed PFI.

5.2 Shared Risk

The allocation of risk between the Council and the possible PFI contractor has been looked at in detail in preparation of this EOI. The Council recognises that best practice in this area is centred on each party in the PFI having a uniform understanding of the definition, scope and reach of the risks involved. In line with the existing two pilot schemes the PFI contractor would take on all the risk of the Highways network, but the Council would retain and manage the risk caused by major landslips and coastal erosion.

6 Stakeholder Consultation

The Council is already consulting with staff and the main union, UNISON, and intends to continue this consultation throughout the development of the PFI. The Council has no blue collar issues as this part of the workforce was outsourced in the late 1980s.

A 4ps Gateway 0 Review was carried out in June 2005 and a number of recommendations were made; these have since been put in place by the project team.

Further programme of external consultation is being carried out with both business (utilities, Chamber of Commerce) and political stakeholders (elected Members, parish/town councils) stakeholders. Through the local LSP's relevant theme group, the Quality Transport Partnership, all public transport operators are being consulted. A formal communications plan is currently being developed to inform the public and key local stakeholders on the Isle of Wight through all stages of the PFI process.

Further work led by the Island's economic development agency with key local partners will look at the implications for skills development (IW College), economic regeneration and the legacy of the proposed PFI to the local economy. The proposed public/ private regeneration vehicle, the 'Island Investment Company', will be consulted on managing the provision of base sites for the PFI contractor. While final 'mobilisation' for the start of the contract is likely to occur in early 2009, business support and skills development will be examined and planned in advance to help ease the transition to the contractor.

Consultation with key environmental stakeholders, such as the local AONB Partnership, will take place to examine the implications to the local environment and rural landscape of the proposed PFI.

7 Project Management

7.1 Isle of Wight Council's Experience of 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 commitment to the PFI model in its successful development of an Integrated Waste Management PFI with Biffa Waste Services Ltd, the first such scheme in the country, which won "Best long running operational scheme" in the Public Private Finance Awards 2004. This existing PFI was short listed for 'Beacon' status in this year's awards.

7.2 Project Planning

To successfully develop a large-scale public sector project such as the proposed PFI it is essential to have:

- Commitment from the Council and its Members;
- A Project Board of elected members, staff and advisers who can combine experience of the key issues and market expectations;
- Resources (budget, staff) 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 a comprehensive electronic data room;
- The experience and ability to negotiate contract terms through a dialogue process;
- An experienced and capable Contractor.

The Council intends to implement and manage this project in line with its QMS (ISO 9001) and Investors in People accreditations and adhere to PRINCE2 project management methodology.

7.3 Project Board

The Council is committed to efficient project implementation and will be putting in place the resources and personnel to take forward the work detailed in the Project Timetable (Appendix A). To date a budget of £1.73 million has been allocated to the PFI project by the Council. A corporate governance structure has been put in place to ensure proper ownership, management and control of the project with clear lines of responsibility and accountability.

The project management structure comprises a formal Project Board consisting of the following individuals:

- Cllr Andy Sutton, Leader of the Council;
- Cllr Ian Ward, the Cabinet Member for Environment, Transport and Planning;

- Paul Wilkinson, Director of Finance;
- John Lawson, Director of Policy Performance & Partnerships (Legal) and Deputy Chief Executive;
- Derek Rowell, Strategic Director of Economic Development & Regeneration (Project Sponsor);
- Stephen Matthews, Head of Engineering Services (Project Director);

Observer Status:

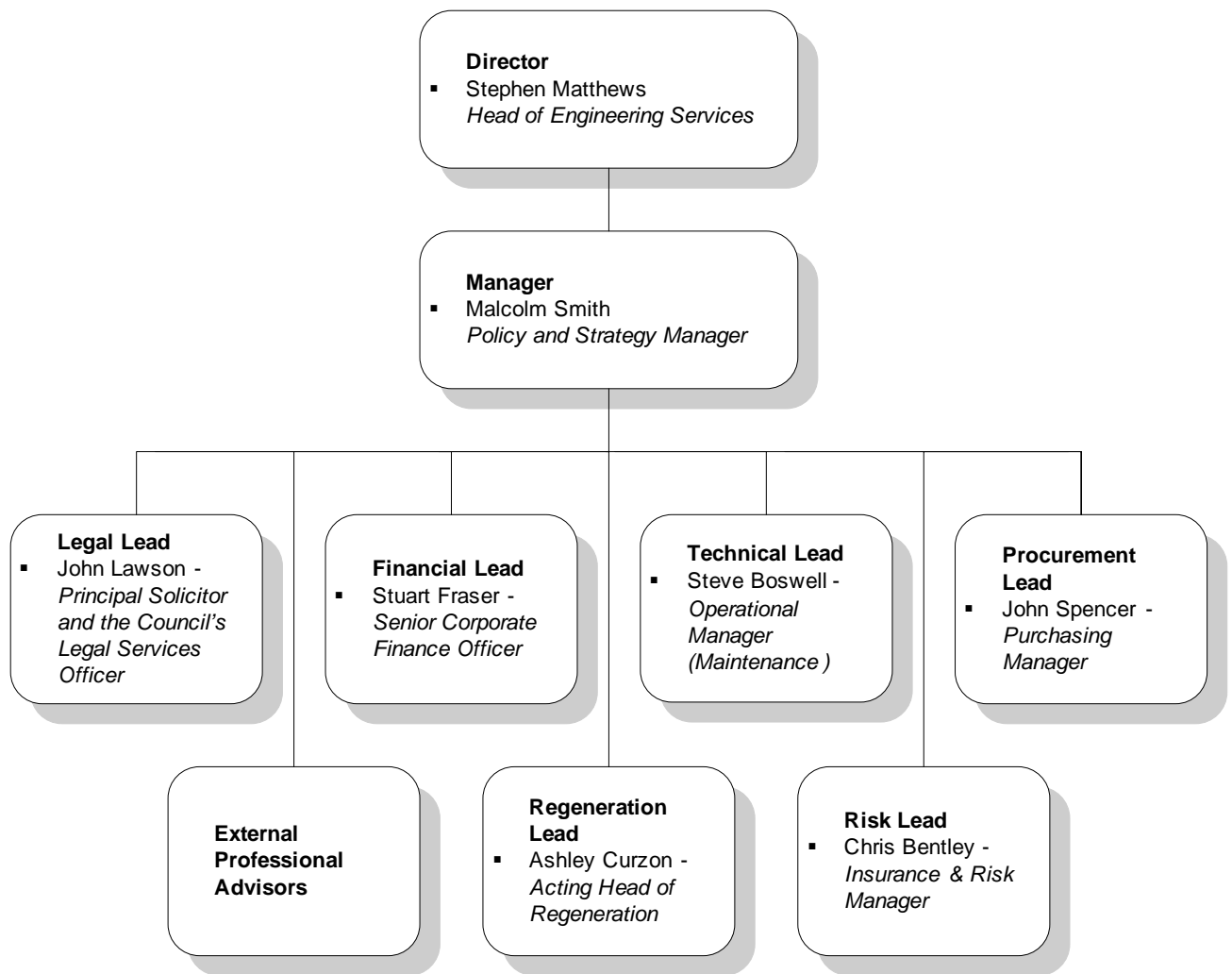
- Cllr George Brown, Policy Commissioner for Economy, Tourism, Regeneration and Transport;
- Cllr Ivan Bulwer, Lead Member/ 'Champion' for PFI;
- Yousof Khan, 4Ps Representative;
- Staff Representative (1).

The Board meets on a monthly basis and receives reports on the progress of the project. The Project Sponsor chairs these monthly meetings and will report to the Council's Cabinet.

7.4 Project Team

Day-to-day development and management of the PFI project will be carried out by the Project Delivery Team led by the Project Director and comprising internal and external resources required to deliver the various stages of the PFI procurement process. The Project Director will be seconded full time to direct the PFI project. This team will report to, and will be directed by, the Project Board on a monthly basis.

The team includes the principal officers within Engineering Services combined with senior officers from legal, financial, procurement and risk sections of the Council. The team is further strengthened with the inclusion of officers with experience of the existing Waste Management PFI. The Project Manager has an extensive highway maintenance background and is a qualified Prince2 practitioner. The team includes the Acting Head of Regeneration to provide links to the regeneration work of the council and its partners. External professional advice on technical and financial issues is being provided by Mott MacDonald and Deloitte respectively.



7.5 Proposed Advisors

The Council will be procuring appropriate professional support for future phases of the PFI. A budget of £1.73m has been approved by the Council for this purpose. In-house expertise will also be utilized from across Council departments when required.

There has been extensive consultation and dialogue with:

- Major PFI contractors;
- PFI professional technical, legal and financial advisors;
- Officers at Birmingham and Portsmouth City Councils and other local authorities interested in PFI;
- 4ps;
- Audit Commission;

- GOSE;
- Partnerships UK;
- SEEDA;
- SEERA.

APPENDIX A

Project Timetable

The Council has been keen to develop this form of PFI since 2004 submitting our original proposal to the DfT in April 2005. The Council has maintained an open dialogue with the DfT as details of the pathfinder round for Highways Maintenance PFI were developed. The following represent the key dates, actions and activities related to the Council's development of a proposal for a Highways Maintenance PFI:

September 2003	The Council approves the preparation of a PFI EOI
Late 2004	Mott MacDonald retained by the Council to advise on PFI options
Dec 2004	Staff consultation begins
20 th April 2005	Option Appraisal Report approved by the Council's Executive
June 2005	4ps Gateway 0 Review carried out
January 2006	Deloitte appointed as advisers to the Council for the EOI
January- August 2006	Consultation carried out with key stakeholders
15 th February 2006	DfT HM Pathfinder Letter published
22 nd February 2006	The Council approves a budget of £1.73m to progress the PFI
February- July 2006	Soft market testing with possible contractors
March 2006	LTP2 submitted
March- August 2006	Council attends all 4ps HM Network Group meetings
August 2006	Highways Inventory completed
August 2006	Transport Asset Management Plan completed

Owing to the nature of this project, the Council expects that reasonable periods should be allowed both for tendering and for dialogue based negotiations leading to the preferred bidder stage. In line with the experience of Portsmouth the Council is allowing a mobilisation period of 5-6 months for the contractor.

The following milestones for the PFI proposal should be achieved within the time frame in the table below:

September 2006	Submission date for EOI
December 2006	Anticipated date to proceed with Outline Business Case (OBC)
January 2007	4ps Gateway 1 Review to be carried out
April 2007	Submission of the OBC
May 2007	Project Review Group (PRG) Approval
June 2007	Appointment of Financial, Legal and Technical Advisers

June 2007	Publication of Official Journal European Union Notice
August 2007	Issue of Pre-Qualification Questionnaire (PQQ) & Invitation to Submit Outline Proposal (ISOP)
November 2007	Invitation to Dialogue
March 2008	Conclusion to Dialogue
June 2008	Issue of tender documents
October 2008	Submission of tenders
December 2008	Selection of Preferred Bidder
January 2009	Financial Close
January 2009	Commencement of Mobilisation
May 2009	Commencement of Contract

APPENDIX B

Option Appraisal Matrix

SCOPE OPTIONS

Criteria	Rehabilitation Only	Rehabilitation & Selected Services	All Relevant Services
Affordability			
Safety			
Sustainable			
Policy Flexibility			
Fit to Objectives			
Deliverability of Options			
Market Tested			

APPENDIX C

Accounting Standard

A key consideration for a PFI project is how its public sector purchaser should account for any newly created or procured assets within the project. An off balance sheet accounting treatment generally arises for such assets where the private sector operator bears a significant part of the scheme and service risks relating to the assets. The purchaser consequently will be seen in substance, as receiving a service, not owning or acquiring assets.

The required accounting treatment assessment applies the accounting guidance in HM Treasury Private Finance Taskforce's Technical Note No 1 – How to Account for PFI Transactions ("TTF TN1") directly to the Project transaction, which is an aid to interpreting Application Note F to Financial Reporting Standard 5 ("FRS 5 Note F") – Reporting the Substance of Transactions: Private Finance Initiative and Similar Contracts.

TTF TN1 recommends that the purchasing authority entering into a PFI contract undertakes a review of the contract's accounting treatment at three stages prior to contract signature, as the level of information and documentation increases during the process, to ensure no late surprises.

Under the Prudential Code, which came into effect from 1 April 2004, there is no longer any need for a purchaser authority to gain credit cover for new assets. However, we understand that, to qualify for PPP/PFI approval and support:

The transaction must still be structured following standardised guidance;

It must have sufficient service elements to be accounted for as a contract for services rather than a lease; and

It must have appropriate risk transfer to the private sector.

In addition, if the assets are shown on the purchaser authority's balance sheet, the corresponding liabilities will count against the authority's prudential borrowing limits.

Isle of Wight's PFI Transaction

The transaction will be structured such that a sufficient balance of risks is transferred to the private sector operator to enable the transaction to be treated as off balance sheet under the TTF TN1. A definitive opinion on the accounting treatment will not be possible until the transaction's contractual features are finalised. However, the basis of the transaction's contractual features is the [4Ps Standardised Street lighting PFI Documentation]. Given this, we have seen at this stage, no evidence to suggest that once we have applying the key principles, and the qualitative and quantitative indicators and methodologies that make up the accounting guidance in TTF TN1 to the transaction, the newly created assets in the Project transaction should not be accounted for as off the Council's balance sheet.

Key Aspects of the Proposed Contract

From a balance-sheet viewpoint, the following will be key aspects of the proposed contract when we undertake our accounting treatment assessment:

The private sector operator will be responsible for providing a street lighting service for 25 years. Before separating energy services, the capital asset element of the contract is likely to be in the region of [50%] of contract costs, highlighting that, unlike many PFI schemes this is far more akin to a service concession;

The scheme involves the Council passing all of its responsibilities in relation to street lighting for 25 years across to the private sector. Unlike some PFI schemes there will cease to be any significant Council involvement with this service function and the underlying assets;

The expected useful life of a properly specified streetlight is 25 years, the same length as the Scheme. Although new streetlights are not all installed on day one, we suggest that the Council's risk is limited in terms of range of possible residual values as the residual value is likely to be very small. Again this contrasts with many PFI schemes where the underlying asset is only half way through its useful life when returned to the Council; and

There are two elements of demand risk: Prescribed lighting levels for the existing network - this is a Council borne risk that results from changes to the level of street lighting required over the 25 years. However, as the operator is required to upgrade streetlights to the last current specification, it is considered by the Council specialists in this area that the risk to the Council in relation to future changes in prescribed lighting levels is de minimis; and accruals to the network - should there be further road expansion requiring an expansion of the street lighting service, the operator is required to provide this, albeit in return for a higher unitary charge. Under the definitions of the TTF TN1, this affects the operator's ability to produce property profits and is seen as an operator risk.

TTF TN1 - Quantitative risk indicators

On the basis of the [4Ps Standardised Street lighting PFI Documentation] and our experience of other street lighting PFI transactions, we would expect that the quantitative risk indicators

to be considered as part of an accounting assessment under the TTF TN1 would be allocated as set out in the table below:

Risk / Principal Factor	Borne by purchaser	Borne by operator
A – Penalties for under-performance		4
B – Potential change in relevant costs		4
C – Design risk		4
D – Obsolescence	de-minimis	
E – Third Party Revenue	de-minimis	
F – Demand Risk	de-minimis	4
G – Residual value risk	4	
Separable Energy Risk	Shared	

APPENDIX D

PFI Credits Calculation

APPENDIX E

NATA Appraisal Summary Tables

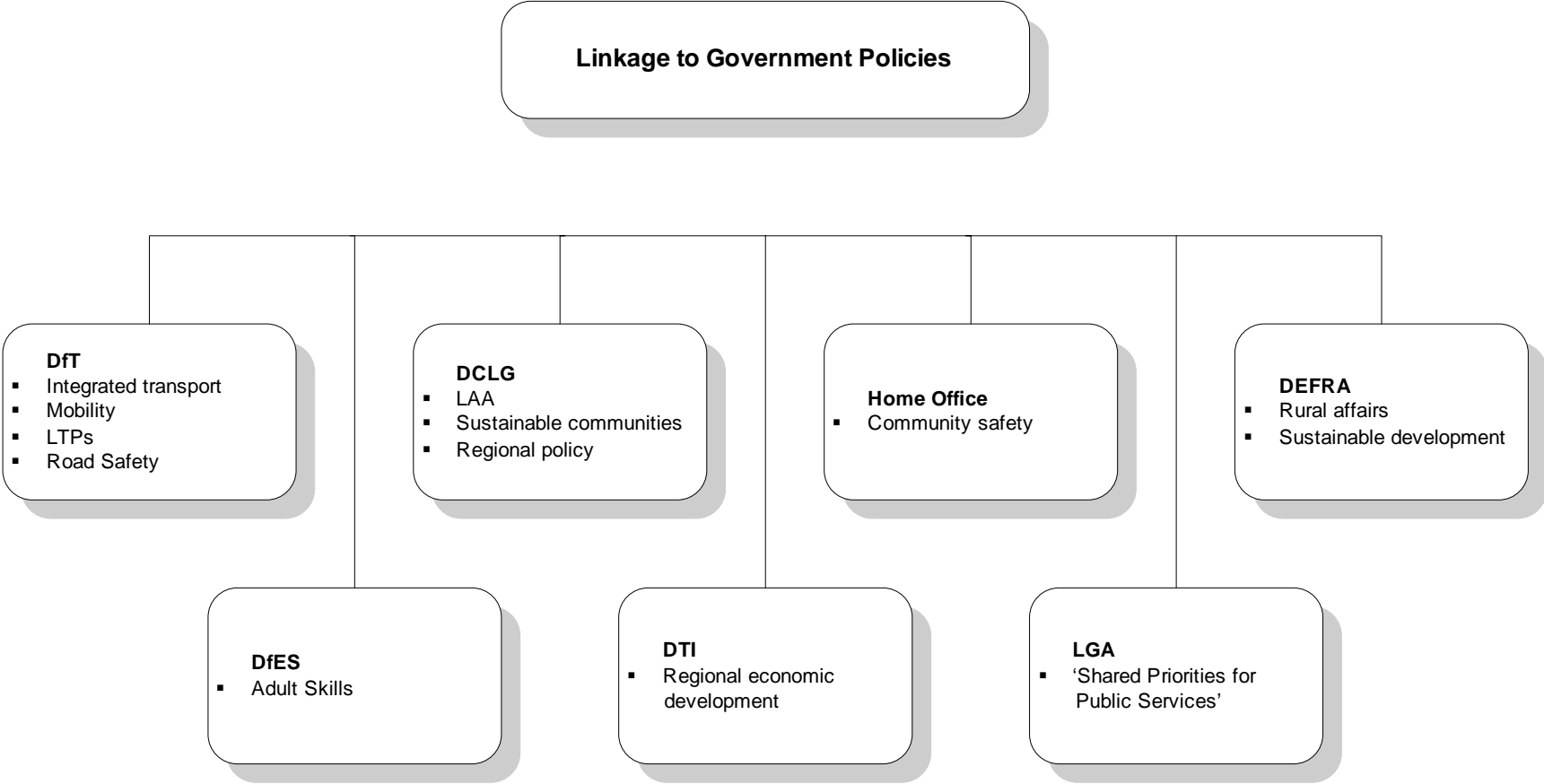
(4 tables to be supplied by Forbes)

APPENDIX F

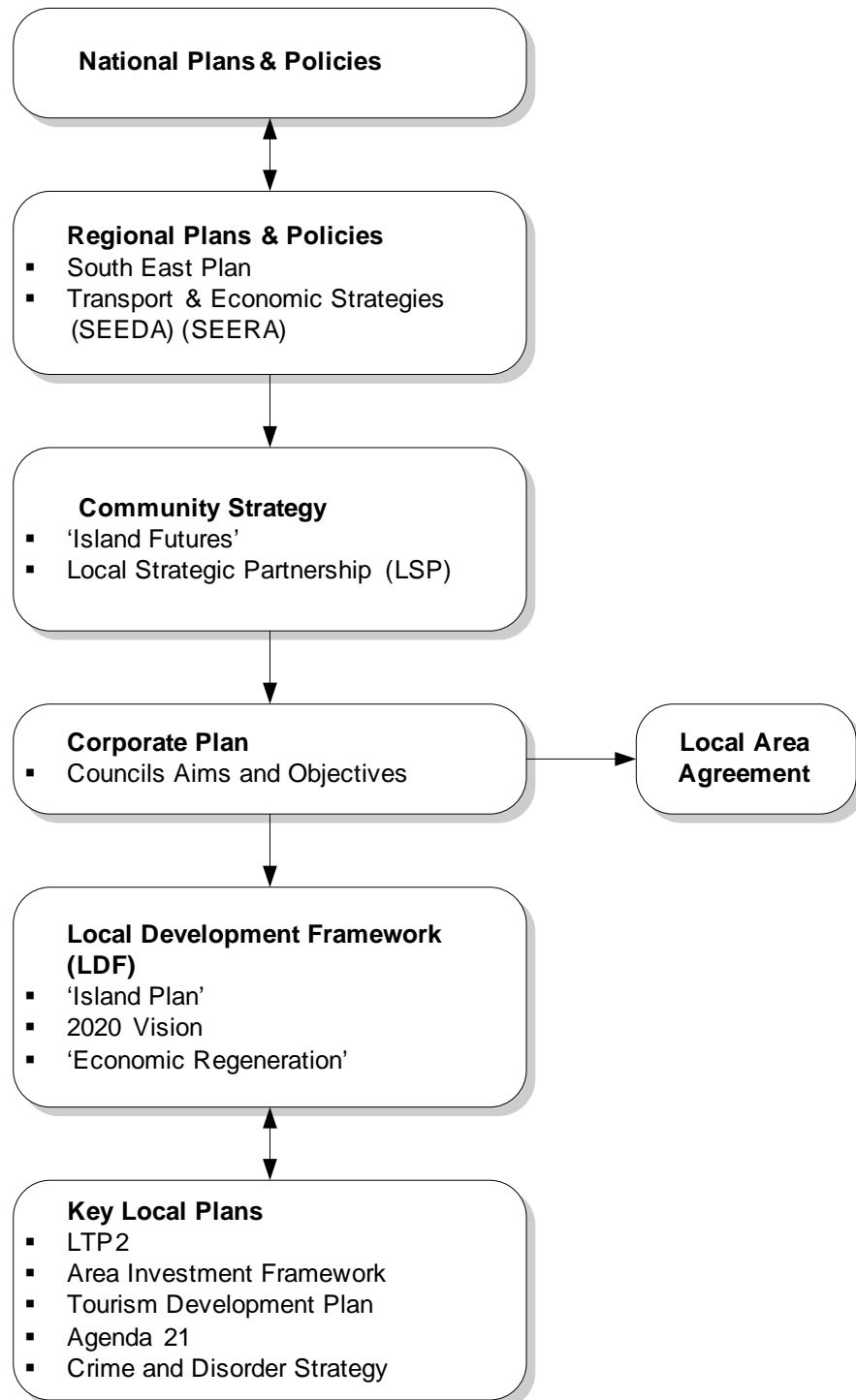
WDM Report

APPENDIX G

Linkages to Government and Local Policies and Plans



LOCAL & REGIONAL POLICIES & PLANS



APPENDIX H

Project Team

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 team will consist of:-

Project Director: Stephen Matthews, Head of Engineering Services and the Council's principal professional advisor on engineering matters with over 25 years experience in major civil engineering and infrastructure projects. He is also a 4ps Gateway Reviewer.

Project Manager: Malcolm Smith, Policy & Strategy Manager for Engineering Services and will be managing the project on a day by day basis. He has 32 years experience in highway projects and maintenance, and is a qualified Prince2 practitioner.

Legal Lead: Pat Szatter, Acting Head of Legal Services, leading a team of public law and commercial lawyers providing advice on contracts to all Council departments.

Financial Lead: Stuart Fraser, Senior Corporate Finance Officer, an accountant qualified under the Institute of Public Finance. He has many years experience of highways finance and was involved in the procurement of the Council's Integrated Waste Management PFI.

Technical Lead: Steve Boswell, Operational Manager (Maintenance) with Engineering Services. He has over 25 years experience in major Highway project management and was involved in the procurement and now management of the Integrated Waste Management PFI.

Procurement Lead: John Spencer, Purchasing Manager and is responsible for a wide range of Council procurement projects including working with strategic partners.

Risk Lead: Chris Bentley, Insurance and Risk Manager and is responsible for risk issues across all Council departments and activities.

Regeneration Lead: Ashley Curzon, Acting Head of Regeneration and is the lead officer in the development of the Council's LDF.