



PFI of the City of Portsmouth: Four years on the road

Private Finance Initiative 25 years contract

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ABSTRACT

The 30th of July 2004, Ensign Highways was awarded a Private Finance Initiative contract for 25 years by the City of Portsmouth in the United Kingdom.

This project was to deal with the city road network (but not only); 480km of roads with 26% in critical conditions and 22% in failed conditions. The project is fence to fence. The budget of the City could not deal with this aged network.

The goal of the paper will be to present the original contract specifications and requirements, to show the work done since the beginning of the contract and to leave a part in the paper to present the owner's approach, expectations and first assessments after four years of contract.

A part will be done by Ensign Highways (COLAS SA and COLAS Ltd) to show the means (equipment, personnel) prepared by the company, the specific approach done to optimize work, minimize the burden to the citizens and to provide the best strategy for the roads issues. Financial aspect will also be presented to see what is at stake.

Strategy applied by Ensign Highways is very closely linked to the technical level of the existing road network. Pavement preservation techniques are very strongly implemented.

Techniques and innovations were applied in order to speed the application, to improve long term characteristics; therefore to improve the comfort of the users in an urban environment.

RESUME

Le 30 juillet 2004, la société ENSIGN a été adjudicataire du contrat « Private Finance Initiative » d'une durée de 25 ans par la ville de Portsmouth au Royaume Uni.

Ce projet a pour but de réhabiliter le réseau routier de la ville (mais pas seulement): 480km of rues et routes dont 26% en condition critique et 22% en mauvaise condition. Le projet est de clôture à clôture ; le budget de la ville ne pouvait plus répondre aux demandes trop fortes du réseau en mauvais état.

Le but de cet article sera de présenter les conditions originelles du contrat et ses spécificités, puis de montrer les travaux réalisés à ce jour et de présenter l'approche du maître d'ouvrage, ses attentes et les premiers bilans après 4 ans de contrat.

Un chapitre sera préparé par Ensign Highways (COLAS SA et COLAS Ltd) pour montrer les moyens mis en œuvre en personnel et en matériel : l'approche particulière prise par l'entreprise pour minimiser la gêne à l'usager et adopter la meilleure stratégie pour l'entretien des chaussées sur cette période de 25 ans.

The City of Portsmouth

Portsmouth is a city that is rich in history and home to the leading edge developments in commerce, industry, technology and education.

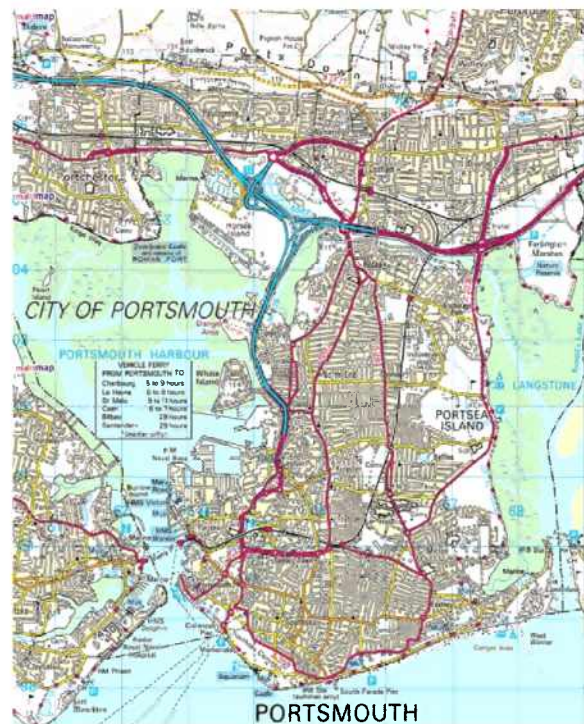
The city remains the home of the Royal Navy and is set to become a world class leisure destination with a unique waterfront environment.

With a population of just under 200,000, Portsmouth is one of the densely occupied cities in the country outside London. As a major and developing tourist centre, Portsmouth currently attracts some 4.5 million visitors a year.

The people of Portsmouth obtained their charter from King Richard in 1194. There has been a Mayor in the city since at least the 13th century. With the municipal reforms of 1832, Portsmouth became a borough with an elected council that in turn created a county borough in 1888. Portsmouth became a city by royal charter in 1926.

Portsmouth City Council provides the full range of local government services including Highways, Education, Social Services, Waste Management, Leisure, Library, Youth Service, Planning, Economic Regeneration, Environmental Health, and Trading Standards and is the largest municipal port in the UK.

The City comprises two areas, the mainland and the Portsea Island. There are three roads linking the mainland to the island, the M275 motorway, the A2030 Eastern Road and the A3 London Road.



The total road network is 442 km

Background of the contract

In the late 1990's Portsmouth City Council (PCC) embarked on a comprehensive review of the highways operations which results in the City Council changing its highway business and established a highways maintenance service which embraced the concept of whole-life asset management. The new structure provided a more efficient, customer-focused approach to highways service delivery albeit within recognized financial constraints.

PCC identified areas of additional funding to deliver better value for money, and to halt the deterioration of its highway assets. At this time, there were a number of new national policy initiatives for transport: Planning Policy Guidance; Environment Act 1995; and Air Quality Regulations 1997 and the Integrated Transport White Paper 1998- A new Deal for Transport; Transport 2010- The 10 Year Plan; the last of which included a number of targets for local authorities, including one to eliminate the maintenance backlog on local roads and street lighting by 2011.

In the report of the House of Commons Transport Committee (Local Roads and Pathways- Fifth Report of session 2002-2003), it was noted that although the use of roads and pathways to make journeys is the public service used most frequently and by everyone, successive governments have failed to invest sufficient funds to maintain the country's network. The result has been an enormous road maintenance backlog around the country, too much "patch and mend" rather than long lasting maintenance, and increasing litigation and compensation claims for injuries resulting from poor highway condition.

PCC could have predicted the findings of the report. The City's road network had been in decline for some considerable time, and in an effort to focus on this issue, the City Council submitted a bid to the Minister of Local Government to be a "Best Value Pilot" in 1997 to "find new ways for maintaining operational assets and highways". The City's bid was one of 37 out of 150 that were selected.

The Best Value Asset Management Review technical surveys showed half of the Portsmouth's principal road network to be in a failed or critical condition and that there was a significant backlog in maintenance.

Funding levels at that time were insufficient to address the backlog and accordingly the City Council sought to identify alternative funding mechanisms. Following a detailed review of options, a proposal to obtain Private Financing Initiative (PFI) credits was prepared to fund a long term highway management contract for the principal road network only. This conclusion was based upon a detailed assessment of

the potential to achieve savings with a whole life costing approach that linked timely capital investments to planned maintenance and the economies of scale derived from the fence to fence grouping of services.

The options appraisal and business planning identified that a project including highways, bridges, structures, street lighting, maintenance of traffic management, highways related tree and grounds maintenance, winter maintenance and street cleansing to be procured through the Private Finance Initiative offered the best value solution to PCC with significant additional funding required.

In November 1999, the City submitted an Outline Business Case to the Department of Transport requesting financial support to procure a long-term contract to manage and maintain the 26 miles of Principal Road highway network.

The basic concept was based on the Best Value Asset Management project that indicated that a planned life cycle management approach offered best value for money than the traditional annual works program that responded only to immediate and acute need. Late intervention was demonstrated to be inefficient and costly, often resulting in the need to reconstruct roads rather than resurface them.

After detailed discussions with the Department of Transport, the Outline Business Case was approved to allow the City Council to enter into a 25-year contract to pass fence to fence responsibility for the entire 26 miles of network to the private sector. At the request of the Department of Transport, the scope of the work was expanded to include all secondary and unclassified roads as well as gully emptying and street cleansing.

In December 2000, the project was approved by the Government and awarded a PFI credit. The approved letter described the project as a 'pioneering and innovative ways of procuring better road maintenance'.

The Department of Transport undertook a detailed examination of the project, including ensuring it delivered value for money and was appropriately scoped, before agreeing an increase in funding in January 2004.

The overall value of the contract over 25 years is in the region of £500M.

The Contract

On the 6th of February 2004, the City Council announced that the preferred bidder was Ensign Highways, a special purpose vehicle (SPV) set up by COLAS SA (50%) and COLAS Ltd (50%); COLAS Ltd being the UK COLAS company. Following a further intense period of negotiations, the contract was signed on 30th of July 2004. The service started on 31st of January 2005.

The contract passes "fence to fence" responsibility of the highway network to Ensign Highways and encompasses rehabilitation of the highway network, life cycle replacement and day to day operational maintenance and management.



Fence to Fence

It delivers value for money by ensuring that capital investment is undertaken at the optimum point on the pavement deterioration curve and following this investment the asset maintained thereafter at a fair to good condition.

This is the first time a Local Authority has contracted with a private company through the PFI to procure an Authority-wide highway management service. As an acknowledged pathfinder project, there were considerable risks to the City, such as failed procurement, corporate acceptance and affordability. However, considerable interest in the project is now being shown both nationally and internationally.

Objectives

There are ten objectives that underpin the Highway Management Contract:

1. To bring to the City's road and footway network up to fair to good condition and to maintain them in that condition for 25 years
2. "Fence to Fence" responsibility for the network stewardship
3. To maximize the potential of the contract for the Council
4. Significant, flexible resources to respond to unexpected and planned events
5. An "excellent" standard of customer service
6. A proactive rather than reactive approach to the network
7. Excellence in communication with the public/stake holders
8. Maximize third party Income revenue
9. Minimize delay to traffic as a result of maintenance works
10. Minimize the impact of maintenance works on the environment

Mobilization and Principles of the project

For COLAS Ltd and COLAS SA, the involvement in the project started in July 2001 with the expression of interest. The bidding process took in excess of three years due to the novelty of the project and the necessity to adapt the technical specifications as well as the contractual arrangements to allow for an optimum risks allocation that made the project affordable.

Colas maintained a full team for the duration of the bidding process.



Ensign Highways, a special purpose vehicle, has been incorporated specifically for the project and is equally owned by COLAS SA and COLAS Ltd. All works and services are subcontracted to COLAS Ltd; COLAS Ltd set up an operational center dedicated to the PFI and does additional road works around the Portsmouth area.

The mobilization period between 30th of July 2004 and 31st of January 2005 was one of the keys of the success of the contract. The City council was keen to ensure that the transfer of services was as seamless as possible, and that residents and visitors experienced no deterioration in service.

Key to this aspiration was ensuring the smooth transfer of existing staff to COLAS Ltd. Nineteen City Council posts were subject to the transfer. The biggest concern for these staff was pension arrangements and COLAS successfully applied for Admitted Body Status under the Hampshire Local Government Superannuation scheme. Staff and Trade Unions were kept informed of progress through regular meetings and questions and answers sessions. COLAS also undertook confidential one to one staff interviews with all transferring staff from the council and had follow up interviews after contract signature. A similar process was undertaken from the existing contractor which had the previous highway maintenance contract.

Remaining staff within the council were subject to a significant change of duties and functions. Their role changed from direct service delivery to that of monitoring contract performance in parallel with Ensign Highways' self auditing obligation. The incentive is on Ensign Highways to do the job right first time and to program.

Payment mechanism

The Payment mechanism is based upon network availability and performance with an element linked to Heavy good Vehicles usage.

The structure of the contract is broadly as follows:

There is a mobilization period to allow the service provider to prepare for service commencement. At the end of this period a commencement certificate is issued (on satisfaction of certain pre-conditions) and the period for core investment begins.

The first five years, reconstruction and rehabilitation of the road network will be under way and the next twenty years will be dedicated to the maintenance.

The commencement certificate triggers the senior debt facility which allows the Service Provider to fund the five-year period of core investment works. Whilst these works are being undertaken, the remainder of the services included in the project are provided. The core investment works and services occur concurrently which provide revenues, as service payments commence immediately, and as the new infrastructures meet the specified standards. The specified standards are expressed through a network condition index (NCI) and operation, maintenance performance criteria.

NCI is a measure of the condition of the principal, secondary and tertiary road network based on a combination of all or some of the following depending on the category of roads:

- Skid resistance as measured by the SCRIM (SRI)
- Surface Condition Index as measured by Coarse Visual or detailed visual condition surveys (SCI)
- Pavement Structural condition as measured by deflectograph (PCI)

During the first five years of the contract, identified as the Core Investment Period, the NCI for the principal and secondary road networks is calculated and availability payments stepped up when predetermined targets are met biannually. The NCI for the tertiary road network is calculated at the end of the Core Investment Period.

The calculation is based on the following:

Principal Network $NCI = SRI + SCI + PCI$

Secondary Network $NCI = SRI + SCI$

Tertiary network $NCI = SCI$

Ensign Highways commission the necessary surveys and process the data to produce the NCI in each case. The methodology and process used is then verified by a third party.

Client Perception

For a number of years, the Council, like just about every other local authority in Britain, was acutely aware that the condition of its highways was in decline through lack of investment. It acknowledged that

roads are a universal service used by all residents and visitors and vital to creating a sustainable community that is critical to the city's future prosperity.

Roads are usually taken for granted, until they fail. Two things are often overlooked - they have limited life, typically 25-40 years, and, secondly, maintenance work is not just for safety reasons but it is essential that it is undertaken at the optimum time to effectively preserve the asset. The relative longevity in the performance of roads meant, compared to the more immediate budget pressures of Education and Social Services, that highway maintenance's ranking in the funding priority stakes has traditionally been low.

Accordingly, Portsmouth City Council has developed the first Highways Management PFI of its kind in the United Kingdom. The contract provides for a private sector Service Co. to take fence to fence/day to day responsibility for management of the highways network and related activities for 25 years. After a period of 5 years of significant capital investment (Core Investment Period) to remedy a backlog of carriageway, footway and street lighting repairs the Service Co. are then be responsible for maintaining the network to an appropriate standard. This is a true asset management approach.

The Portsmouth Continental Ferry Port attracts substantial amounts of freight and passenger traffic, in addition to that serving residents and businesses in the city. The city's principal network also serves as the connection between the Trans-European Road Network and the port. Access to the city is physically constrained by the fact that it is an island. In addition, from a policy perspective, the Council would prefer to ensure that the current network offers an acceptable service to businesses, residents, tourists and freight, rather than considering building new roads. This network is important to the development of an integrated transport system, in providing both a platform for bus routes and interfaces with the railway.

The Council's objective in entering into the contract was to provide a road network which is affordable and facilitates the economic development of the city in a manner consistent with its other wider policies. The first four years of the contract with Ensign Highways Ltd has delivered this objective but has also exceeded overall expectations.

During the first five-year core investment programme, the Council is maximising the potential of each maintenance scheme promoted by Colas to deliver added benefits through combining maintenance work with road safety initiatives and other capital investment. This has delivered efficiency savings to the council and minimised disruption to residents – which is part of the reason that the Department for Transport has described this pathfinder project as a 'pioneering and innovative way of procuring better road maintenance'

Some four years into the contract with Ensign Highways Ltd. the Council continues to be impressed with the competence and professionalism of everyone involved in the contract. Perhaps more importantly residents, visitors and the local media are still very much supportive of the visible difference the contract has made to the entire highway network, and the city itself has built upon this to deliver a period of regeneration and growth.

The key to this success has been effective partnership and communication between the parties and stakeholders. Whilst it will always be necessary to have a well-drafted contract to support and define

the formal arrangements between the parties, only infrequently is this referred to. Instead there is a raft of meetings between key staff both at managerial and operational level, which seek to resolve disagreements and deal with any “grey” areas of interpretation of the wording before they escalate into disputes. The issue of loss of control for the Council is rarely an issue, as it has trust and confidence in Ensign’s ability to manage the network to the benefit of both parties. This is reflected in the small number of client staff retained to oversee delivery.

Overall the purely technical aspects of the contract relating to improvements in the condition of road pavements, footways and structures are being successfully delivered and monitored. The Council are more than satisfied with this aspect of the contract. It is the softer aspects of aesthetics and customer service that are harder to define and measure. These are the fundamentals that either enhance or degrade the reputations of all parties involved and will ultimately be the final arbiter in the public’s eyes in respect of the success of the contract.

This aspect of the contract is also considered to be a success, witnessed by continued support from the local media. However, with rising public expectations, prompted in part by the on-going levels of service, and staff motivational issues over the long term then continual improvement in this area may be harder to maintain. In reality it is anticipated that performance in this area will be variable, with the Contract Managers focused in providing variety in task and responsibility to ensure customer service continues to be to the highest standard possible.

It would be wrong to infer that there are no issues surrounding this contract. Being the first of its type there are the obvious drafting and interpretation issues, and naturally this can lead to tensions. Additionally with a contract of this size and complexity things do go wrong and issues do arise, but there is a willingness on both sides to resolve these without adversely impacting upon the level or quality of service to the public. The success of this contract is about the approach of the people managing it.

Sustainability is a key part of this contract. Whole Life Costing and investment at the right time are fundamental in ensuring the network is maintained and managed at the optimum level to ensure availability to users. Equally at the end of the contract the network is required to be handed back in a predetermined condition to provide the Council with certainty for the future. The Council and Ensign are already starting to plan for hand back in some 21 years time, to ensure that a managed and controlled process delivers a seamless transfer of service for both staff and customers.

For the more immediate future, both parties are reviewing objectives for the post Core Investment period, when the volume of significant investment work will decline to be replaced by life cycle replacement and day to day maintenance. This will pose different issues and will require different competences to ensure that the contract continues to thrive. Succession planning to ensure the existing culture of success is taken forward will be critical as the majority of the people currently involved in the contract will not be in post by the end of the contract!

Portsmouth City Council became the first local authority to contract with a private company through a PFI to procure an authority-wide highway management service. There were potential risks but it has been an overwhelming success, and our pioneering work is being adopted as a template for many other Councils which are seeking to go down the same route.

Service Provider perception

After three and a half years of contract, approximately 285,000 m² of footways have been renewed and close to 1,000,000 m² of carriageways resurfaced, in parallel with the replacement of 7400 lighting columns.

This is quite a significant increase in the volume of maintenance work compared to previous years; 20 to 30 times more per year than before the start of the contract

Ensign Highways is near the end of the Core investment period and a lot of work is still in front.

Throughout all the work that Ensign Highways have undertaken to date, the comment from the public is that Ensign Highways have done the job in a quick and efficient manner.

This was shown through a poll taken in 2005 compared to 2002:

- Road maintenance and repairs (satisfaction up 32%)
- Street cleansing (satisfaction up 19%)

The COLAS /PFI program is also highly regarded with 58% of respondents being very or fairly satisfied with COLAS work and dissatisfaction fairly low at 13%.

Anyway, 25-year contract is a long way; and when the Core Investment period finishes, the pool will be tougher due to less rehabilitation work performed following the contract. Communication will have to cover this longer period.

The local involvement of COLAS Ltd is quite strong through various festivals, support to the community. COLAS Ltd is more than a contractor; they are part of the City life and for long.

Compared to a toll way, where users just drive through, this project involved citizens who live in the city and the perception is quite different. Why micro surfacing in my street compared to thin overlay on the other one?

The means (personnel, equipment) organized for this job was quite impressive and COLAS Ltd prepared it very well in transferring staff from the City and workers from the previous maintenance program.

It is always a challenge to create a new operation in a new place; the length of the contract gives good perspectives also to our personnel. Hiring is always difficult in the road industry.



Conclusions

The novelty of this contract makes him unique so far.

The United Kingdom has always been a promoter of privatization: externalization of county maintenance and highway Agency areas for example.

The persistent lack of funding for road maintenance and the delay taken due to the lack of funding make this PFI an excellent example of what can be done to improve the road network which is synonym to better economical development and a strong tool for tourism in the case of Portsmouth City Council.

Anyway, this contract is quite different in a manner that both parties work together for the good of the citizens and for a long period.

After four years of this PFI contract, the assessment looks excellent from the Portsmouth City Council, Ensign Highways and more importantly for the people of Portsmouth.

