



Local Government Private Finance Initiative (PFI):
Highway Maintenance (HM) Pathfinder Scheme
Isle of Wight Council
Expression of Interest

September 2006

Expression of interest submitted by:
Isle of Wight Council
County Hall, Isle of Wight PO30 1UD

Index

Foreword:	
Councillor Andy Sutton, Leader, Isle of Wight Council	iii
Introduction:	
Joe Duckworth, Chief Executive, Isle of Wight Council	iv
Statement of support	v
Executive summary	vi
1 Description of the project in a strategic context	1
1.1 Local authority objectives	1
1.2 Plans and government policies	1
1.3 Political support	2
2 Scope and need for the project	2
2.1 Scope	2
2.2 Need	3
2.3 Commercial interest	4
3 Option appraisal	5
3.1 Options appraisal	5
3.2 value for money	6
3.3 Procurement Options	6
3.4 Value for Money of the Preferred Option	7
4 PFI Credits	7
5 General PFI criteria	10
6 Risk	10
7 Stakeholder consultation	12
8 Project management	13
8.1 Experience of PFI projects	13
8.2 Programme management and project delivery	13
8.3 Proposed advisors	14
8.4 Learning from others	15
9 Timetable	15
10 Conclusion	18



Foreword

by the leader of the Isle of Wight Council, Councillor Andy Sutton



The Isle of Wight is unique. It is an island of contrasts. Despite being an area of outstanding natural beauty with developing high tech industries and a major tourist hub, we have the second lowest average wage in the UK. The Island is in desperate need of regeneration to deliver our vision of better employment opportunities, standards of living, education and support for islanders at the same time as retaining its natural landscape.

Central to this vital regeneration is the need to radically improve our infrastructure. Our roads have suffered from years of limited expenditure and maintenance and are no longer fit for purpose. Without major investment in our infrastructure the regeneration of the Island as a whole is in peril.

Not only will a Highways Maintenance PFI change the face of the Island and how it works, but it will be a major catalyst to the Island's development as a whole.

We are fully committed to delivering this PFI project to an exceptional standard and our proposal provides an excellent learning opportunity for PFI projects in general. We are looking to innovate and bring a fresh approach to managing a major PFI scheme. We want to do this fully in partnership with the Department and see this as being critical to our success.

We see our bid as being the natural third element of a triumvirate comprising an urban PFI in Birmingham, a provincial PFI in Portsmouth and our largely rural scheme here on the Island.

The council along with its partners fully endorse and support this Expression of Interest, the success of which is vital to the future aspirations of the Island.

Introduction

by Joe Duckworth, Chief Executive of the Isle of Wight Council



I joined the Isle of Wight Council from Westminster City Council in June and since then my top priority has been to ensure the organisation is fit for purpose to deliver our ambitious programme of change. I have focused on building capacity at the top to ensure we have the best people in place to drive forward the changes we need to ensure we are a top class organisation with islanders and their needs at the core of our business.

I am confident that we now have in place the capacity to deliver this exciting PFI project. You will see we have aimed high in our bid and opted for a full replacement of our highway infrastructure. We are under no illusions that this will be a challenging task and have spent much time considering the risks involved and identifying the resources we will need to deliver this project successfully.

I am delighted to have recently appointed an excellent Director of Environment and neighbourhoods who has an unquestionable track record of delivery of complex projects at Westminster. He will be the lead director on this project and I will be the project sponsor. To support the delivery of this project we are fortunate to already have in place experienced and respected engineering, technical and financial officers to make up the project team.

In addition to increasing resource at a strategic level, we are also about to appoint a strategic transformational partner to increase our capacity in the areas of programme and project management, procurement and IT. This partner will be in place by the time we submit our business case and will play a key role in the delivery of an effective PFI project.

We have already implemented a successful waste management PFI and will approach this project with the benefit of that experience as well as knowledge and intelligence gleaned from other pathfinders. We are not just looking at the highways in isolation but see this project as a key element of improving transport generally both on and to the Island. We are developing it in tandem with improving cross-Solent travel and public transport generally on the Island.

We are also starting from a solid base. We have meticulously baselined the current state of our highways enabling us to effectively specify and cost what needs to be achieved. We will be looking at an innovative partnership model with a contractor and will incentivise this partnership to ensure it is firmly in the public interest for the life of the project.

Therefore, I believe we are excellently placed to deliver an innovative, effective and efficiently run PFI project that will provide a case study for future PFIs in the UK.

Statement of support

'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 we consider to be the only affordable option for the Isle of Wight.'

Isle of Wight Council



Cllr Andy Sutton
Leader



Cllr Ian Ward
Cabinet Member for Environment,
Planning and Transport



Cllr Deborah Gardiner
Labour Group Leader



Cllr Muriel Miller
Independent Group Leader



Joe Duckworth
Chief Executive
(Project Sponsor)



Stuart Love
Director of Environment
and Neighbourhood



Derek Rowell
Director of Regeneration
and Development



Stephen Matthews
Head of Engineering
Services (Project Director)



Mark Chiverton
IW UNISON
Branch Secretary

Partners



Kevin Smith
IW Chamber of Commerce



Mike King
IW Economic Partnership



Marc Morgan Huws
Southern Vectis



Estelle Thomas
IW Rural Community Council



Nigel Smith
IW Tourism

Executive Summary

This document details an EOI from the Isle of Wight council for a highways maintenance PFI scheme.

Background

The council is a unitary authority off the south coast of England. It is responsible for the management and maintenance of 822 kilometres of highway and 827 kilometres of public rights of way. It 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 Local Transport Plan funding.

Case for investment

The council undertook best value reviews in 2001 and 2002 which clearly identified that the Isle of Wight has a road network in poor condition. There has been a significant rise in insurance claims over the past three years. There is a clear body of evidence supporting the need for a PFI as follows:

- The 2004/05 returns 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 for 2005/06, the Isle of Wight was ranked worst among local authorities in the south east of England.
- Currently seven roads (156 km) on the Island have weight restrictions and a large number of roads have width restrictions. Without funding, an additional nine roads (24km) will either have to be closed or have restrictions placed upon them.
- Of the council's 11,700 street lighting columns an estimated 5,534 (47 percent) are over 30 years old and in need of replacement.

The failing network is seriously inhibiting the economic development of the Island and without further funding the situation will deteriorate further putting pressure on businesses and the communities they support.

Preferred option

A preliminary options appraisal and qualitative assessment indicate that a holistic approach to the provision of the highway service offers the best value.

Therefore the scope of the proposed PFI comprises a 'fence to fence' approach and includes rehabilitation of the highway network, maintenance of bridges to current assessment criteria, whole life cycle maintenance, replacement of life expired street lighting columns, routine and cyclical highway maintenance, winter maintenance, network management and street cleansing.

Staff and stakeholders 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.

Costs

To support its case for investment, the council is seeking a notional credit approval (PFI credit) of £322 million. The council considers that the project is affordable, subject to the award of PFI credits and has committed to meet the revenue funding indicated in the affordability calculations.

To support the case for investment and demonstrate the council's commitment, the Isle of Wight is assigning its current budget plus a further £0.5 million per annum to this PFI project.

1.1 Local authority objectives

The Isle of Wight Council along with its partners is poised to regenerate the Island's economy and deliver the local community's realistic aspirations described in the Island's 2020 Vision. The Island's aspirations are underpinned by the need to secure significant investment to restore the Island's decaying highway network. This investment is critical if we are to achieve many of the targets in our Island Agreement and the South East Plan.

The council has five corporate objectives, three 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.
- Being a high-performing, cost-effective council.

Over the past three years we have developed a new approach to highway maintenance and network management to support the planned regeneration of the Island. The objective of the HM PFI project is to provide a fully comprehensive approach (fence to fence) for highway maintenance including the complete refurbishment of the entire network. Thereafter whole life cycle techniques will be used to provide VFM sustainable maintenance with an improved customer focus on service delivery.

This HM PFI is the first stage in a wider strategic transport Public Private Partnership (PPP) which seeks to fully integrate transport on and off the Island. Our ambition is to implement a HM PFI to restore and maintain the network, and integrate travel on the Island as well as across the Solent.

1.2 Plans and government policies

The government's policies to deliver sustainable communities and Island Plan objectives will rely on a cross departmental approach to investment in infrastructure to achieve value for money outcomes. In this case, funding for highways maintenance will act as a catalyst to deliver regeneration and housing projects supported by SEEDA, English Partnerships and the Housing Corporation. In addition, the council is taking a proactive stance with public and private partners to combine property assets in a Local Delivery Vehicle to ensure that land assembly will sweep ahead to provide suitable sites for new and existing employers and so build a successful economy. Without adequate maintenance to the existing highway network this progressive Island wide initiative starting at Cowes Waterfront will fail to maximise the opportunity to attract substantial private sector investment.

1.3 Political support

The proposal for PFI has full political support. A recent Comprehensive Performance Assessment (CPA) concluded that “the Council actively promotes and champions the needs of the Island and is showing bold community leadership. Political leadership is strong.”

The council's cabinet approved the option appraisal on 20 April 2005, and full council on 22 February 2006 agreed to allocate £1.73 million towards the costs and fees for setting up the PFI project. Councillors are kept up to date with the project through regular briefings and updates by the lead cabinet member and officers.

At its meeting on the 5 September the council's cabinet agreed to submit this EOI and also asked that the Council's Scrutiny Committee make the PFI process a key line of enquiry to act as a quality check and question the robustness of the process at each key stage.

2

Scope and need of the project

2.1 Scope

The scope of the project moves on a stage from both the Portsmouth and Birmingham models and has been determined through a selection process looking at service suitability, VFM and deliverability. The process was further informed through work with elected members, senior officers, stakeholders and our financial and technical advisors. More recently the process of soft market testing of the scope with potential contractors has further refined those services to be included in the final scope. During this process a number of other areas were examined for inclusion but after careful evaluation the council decided to exclude them from the scope of the proposal. VFM is addressed in 3.4 of the EOI.

The scope of our HM PFI project will be ‘fence to fence’ and includes the following:

- Rehabilitation of the highway network.
- Maintenance of bridges to current assessment criteria.
- Whole life cycle maintenance.
- Replacement of life expired street lighting columns.

- Routine and cyclical highway maintenance.
- Winter maintenance.
- Network management.
- Street cleansing.

2.2 Need

Over a number of years the council has systematically undertaken surveys and investigative works to establish the condition of its highways asset. Results indicate that the condition of the Island's highway network is amongst the worst in England and Wales and this is illustrated by the BVPI results shown in Table 1.

Table 1: BVPI Indicators

	2004/2005 BV performance indicators
BV96	65.4%
BV97a	63.75%
BV97b	62.95%

Working with SECSIG on preliminary figures for 2005/2006, 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.

Twenty per cent of the highway network is subject to weight or width restrictions in connection with structures and a large number of roads have 6' 6" (1.98m) width restrictions. It is estimated without adequate funding, an additional nine 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 greater 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 per cent over 30 years old and in need of replacement. This network also needs to be modernised to meet current codes of practise in the provision of street lighting.

Table 2: Age of street lighting network

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

The council has retained specialist consultants WDM Ltd to validate the extent and cost of 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 4. WDM Ltd also undertakes annual highway condition surveys for the council comprising Scanner, CVI, DVI and Deflectograph.

This summer has also seen the completion of the Transport Asset Management Plan (TAMP) and highways inventory. The TAMP has been prepared in partnership with Chris Britton Consultants to provide a knowledge based decision making process for 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 on an integrated local street gazetteer/Ordnance Survey Mastermap base. Validation of the inventory has been undertaken in-house by checking approximately 25 per cent of the network.

The investment required to halt this decline and return the council's highway infrastructure to a reasonable and sustainable condition is beyond the scope of the existing revenue 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, while no investment would render the network unusable within the medium term.

The total investment required is £169.2 million for backlog, £134.1 million for whole life cycle maintenance, £163.7 million for operating costs and £7.6 million for energy costs, and these figures are set out in greater detail in Appendix 2.

2.3 Commercial interest

The council has undertaken soft market testing with five international companies with PFI experience to test a range of service models with the highway maintenance project at its core. The positive response has not only influenced the scope of this proposal but also how the council will integrate other contracts to deliver a design-led approach to improve the public realm to achieve affordable environmental enhancements at a neighbourhood level. The council is able to confirm from this senior level contact that there is significant interest in tendering

for the PFI project on the Island. This will be followed up with a series of workshops with these companies and their advisors if our bid is successful. In particular, we would be keen to explore the high level of interest shown from the PFI contractor in Portsmouth and how this may be advantageous in achieving economies of scale. An international company with wharfage facilities on the Island has also expressed keen interest in the PFI process. Discussions have been held and the company is keen to invest in its Island business to support cross Solent movement of construction materials.

3

Options appraisal

3.1 Options appraisal

In order to establish options, both the scale of the PFI and the inscope services have been examined in detail by the council and its advisors. The scale options considered were principal network only; principal roads and selected secondary roads; principal and all secondary roads; and finally the complete network. The “do nothing” option was rejected immediately given the rapidly deteriorating condition of the network and the impact on safety and accessibility. Work undertaken around the time of the best value reviews concluded that the council’s agenda for regeneration and the Island’s high dependency on tourism demanded that the scope of any highway maintenance project would need to include the entire network given the extremely poor condition of all classes of road. Details of this work will be expanded on within the Outline Business Case.

Table 3: Options considered

Option	Description
A	Rehabilitation only
B	Rehabilitation and selected other services where economies of scale across the complete network would provide added value
C	All relevant services

The scope options were assessed for the complete network against the following criteria: affordability, safety, sustainability, policy flexibility, deliverability of options and market testing. The results are shown in Table 4.

Table 4: Options appraisal matrix

Criteria	Weighting	Score			Weighting x score		
		Rehab- ilitation only	Rehab- ilitation and selected services	All relevant services	Rehab- ilitation only	Rehab- ilitation and selected services	All relevant services
Affordability	20	4	4	5	80	80	100
Safety	15	3	4	5	45	60	75
Sustainable	18	4	4	5	72	72	90
Policy flexibility	12	5	4	3	60	48	36
Fit to objectives	12	3	4	5	36	48	60
Deliver- ability of options	13	5	5	4	65	65	52
Market tested	10	4	4	5	40	40	50
Totals					398	413	463

A NATA appraisal has been undertaken in accordance with HM Treasury's new Green Book "Appraisal and Evaluation in Central Government" and 4Ps Best Practice Guidance which indicates a BCR of 2.64 for Option C (see Appendix 3). This further supports the outcome of the Qualitative appraisal as summarised above.

3.2 Preferred Option

The appraisal indicates that Option C delivers the required outcomes in strategic, corporate and highways service delivery terms. It also delivers substantial community and local economy benefits, achieves a positive Cost to Benefits Ratio of 2.64 and has the highest score of non financial benefits.

3.3 Procurement Options

In concluding that Option C represented the best value for money approach, a number of other procurement options were initially appraised including prudential borrowing, capital receipts and revenue funding.

From April 2004 local authorities have been able to borrow under the Prudential Code to fund capital schemes. However, they have to find the revenue funds to

finance such borrowing. The council does not have the resources required in the light of current spending pressures and other commitments to be able to finance the level of revenue costs associated with prudential borrowing.

The investment in highways will not in itself generate capital receipts and the council has no other such receipts available that could fund such a project, therefore funding by this route is unsustainable.

In the absence of other sources of capital funding, the council substantially invests its own revenue resources into funding its capital programme. However, it would not be possible to divert anything like sufficient revenue from other activities to meet the objectives of this project without the council undermining a whole range of essential services. The revenue-funding route is therefore not a realistic option.

3.4 Value for Money of the Preferred Option

To demonstrate that the PFI procurement route provides better Value for Money than can be achieved through a conventional procurement route, a benchmark equivalent public sector price has been generated through the TQAT (Treasury Quantitative Assessment Tool) which shows a “crude” VFM factor of 15.32% in favour of PFI. Full details of this exercise can be found in Appendix 2.

4

PFI credits

The cost of the reference project has been estimated on the net present value of the capital, life cycle and relevant financing costs over 25 years for the preferred option. The estimate used WDM survey results and advice on treatment options with appropriate industry rates. Additional factors such as the need to deal with tar contaminates, separation by sea, climate change in relation to a high percentage of the network being on shrinkable clay soils, maximised use of in situ recycling to reduce the carbon footprint and enhanced night working to mitigate disruption to Island tourism have all been reflected in the estimated cost.

Detailed consideration has been given to the length of the core investment period, particularly in relation to the extremely large backlog of repairs and the likely impact of these works on the Island's tourism industry. A CIP of seven years has been identified as being appropriate given the unique characteristics of the Island's highway network and the vitally important role of tourism to the local economy.

Isle of Wight Council is seeking a notional credit approval (PFI credit) of £322.219 million.

The methodology for the calculation of the PFI credit in these highways PFI schemes has not been prescribed. The alternative methodologies have been discussed with our financial advisers, the DfT and 4Ps, in order to provide a balance between compliance with the DfT requirement to link PFI credits to capital spend, while also delivering an affordable solution.

The PFI credits have been calculated based on the overall capital costs. This includes the removal of the backlog, the lifecycle capital cost over the remainder of the contract and the capitalised financing costs. An allowance has also been made for optimism bias. The calculation of PFI credits using this methodology is detailed at Appendix 2.

The calculation has been based on the assumption that the council would follow the approach taken by Birmingham City Council, ie that capital funding for structural maintenance through the LTP process will discontinue. The council will of course be prepared to consider an alternative approach which can be developed through the OBC if this is considered to be advantageous. The council will also seek to enhance the maintenance outputs by investing planning gain and other resources in a design led approach to improve the public realm.

The council budgets used to fund the service after deducting a small amount for fixed costs, provide a total of £6,358,616 (08/09 prices) per year to fund the project. Table 5 shows that the council has committed an average of 114.06 per cent of FSS on its highway network over the last five years. The council will continue to fund at these levels.

Affordability has been modelled over the 25 year contract period on the basis of the figures above. This indicates that the project is affordable to the council. The cabinet resolved at its meeting on 5 September 2006 to underwrite the operational funding requirement of the PFI project; this has been calculated as £498,289 per annum at today's prices. This is in addition to the historic level of spend and equates to £3.73 per head of population.

It is estimated that efficiency savings of at least five per cent will be achieved as a result of:

- a PFI contractor's economies of scale in personnel, equipment, purchasing, finance;
- asset management and investment based on whole life cycle maintenance techniques;
- a schedule of rates for the contractor to price up other responsibilities outside the scope of the PFI bringing economies of scale and savings to the council;
- establishing a planned maintenance regime to replace the current reactive regime.

The council has examined in detail a number of areas that are likely to generate third party income. In particular the council has looked in detail at including decriminalised parking. It was decided not to include it in scope at this stage. The council will explore opportunities for generating third party income through a variety of means. These will include the provision of wifi in street lighting columns with obvious attendant community and business benefits, diversion of part of the waste stream into road construction, increased use of recycled materials, provision of service ducts, and advertising on street furniture and structures. 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.

Table 5: Highways expenditure over five years

Year	Revenue			Capital		
	SSA/FSS	Expenditure per RO	% Over/under	LTP Maintenance Settlement and Supplementary Approvals	Expenditure per LTP	% Over/Under
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	4,976	4,976	20.72	2,942	4,287	45.72

Table 5 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.

5

General PFI criteria

The council is confident 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 Cabinet meeting on 20 April 2005. The council does not believe that there are any planning or legal issues that would delay procurement of a PFI contract.

6

Risk

6.1 Risk analysis

An initial analysis of the risks inherent in the project has been undertaken as part of the development of this Expression of Interest. The council intends to allocate risk in accordance with this analysis and the guidance given by advisors Deloitte. A detailed strategy for allocating risks and the management of retained residual risks will be developed at Outline Business Case (OBC) stage.

The implementation of a HM PFI will reduce the risk of claims resulting from the poor quality of the highway network and their link to traffic accidents and third party trip and damage claims.

The council has examined the risks of the PFI project using the expertise of the council's risk and 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 project. As part of this process a comprehensive risk register has been established for the proposed PFI, and appropriate risks from the proposed PFI have been included in the council's corporate risk register.

6.2 Risk transfer

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.

The council's PFI 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. Given this, it is clear at this stage that once we have applied 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 may be accounted for as off the council's balance sheet.

Table 6: Summary of consultation undertaken and planned

Stakeholder	Consultation
Staff	Workshops and briefings. Strong staff support. The council has no highways staff issues as the direct labour organisation was outsourced in the late 1980s.
Unions	Workshops and briefings. Mark Chiverton, secretary of the Unison branch on the Isle of Wight has stated: "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."
Best Value Reviews and LTP2 stakeholders	Briefings and written submissions. This highlighted the issue of highway maintenance as a priority for extra expenditure.
Environment groups	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 PFI project.
Economic development partnership and LSP	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 PFI project to the local economy. The proposed public/private regeneration vehicle, the "Island Investment Company", will be consulted on managing the provision of work bases 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. The Island is now a European composites hub and close partnership working with the Council will be continued to ensure that growth and development potential is fully supported by the PFI proposals.
Businesses	Several briefings have taken place via the Chamber of Commerce.
Transport providers	Through the LSP's Quality Transport Partnership, all public transport operators have been consulted.
Residents	A formal communications plan is currently being developed to inform the public on the Isle of Wight through all stages of the PFI process.
Parish and town Councils	Workshops and briefings.

8.1 Experience of PFI projects

The council recognises the major benefits of employing innovative processes in discharging its statutory duties as a local authority. The council has demonstrated its commitment to the PFI approach by successfully developing 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.

8.2 Programme management and project delivery

Our 4Ps Gateway 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 including:

- 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
- The experience and ability to negotiate contract terms through a dialogue process
- An experienced and capable contractor

To enable us to successfully develop this large-scale public sector project, we reviewed our resources to ensure they are fit for purpose. We identified where there are gaps and where necessary we will headhunt staff with specialist PFI experience. We will implement and manage this project in line with its QMS (ISO 9001) and Investors in People accreditations and adhere to PRINCE2 project management methodology. We are soon to appoint a strategic transformational partner with specialist expertise in programme and project management as well as procurement. Utilising the expertise of our new partner will be a key part of our delivery programme.

To date a budget of £1.73 million has been allocated to develop the PFI project by the council. This sum was identified after detailed discussions with Portsmouth City Council, Birmingham City Council and professional advisors.

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 comprising the formal project board is detailed in Appendix 5. The board meets on a monthly basis and receives reports on the progress of the project and reports to the council's Cabinet.

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 and manager will be seconded full time to the PFI project. This team will report to, and will be directed by, the project board on a monthly basis. The project sponsor (owner) is the Chief Executive.

The team led by the new Director of Environment and Neighbourhoods includes senior engineering officers 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 team includes the Head of Regeneration to provide links to the regeneration work of the council and its partners. Full details are included in Appendix 6.

8.3 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.

The council has procured the following firms to provide specialist financial and technical support at the EOI stage:

- Deloitte & Touche is a 'big four' professional services firm working closely with local authorities, 4Ps and central government across a range of services, from external audit to human capital. The Deloitte PFI team assisting the Isle of Wight comprise the transport PFI specialists who are advising Birmingham City Council on their Highways PFI; have worked on a range of other transport, highways and street lighting PFIs (from EOI to financial close), including the Portsmouth Highways Management PFI project to ITN stage, and recently signed street lighting PFI schemes.
- Mott MacDonald is a major management, engineering and development consultancy providing solutions for both the public and private sectors. The PFI team assisting the council comprises specialists at the forefront of developing PPPs to deliver transport solutions to local and regional authorities around the world. This team has also worked on the highways maintenance PFIs for Birmingham and Portsmouth.

8.4 Learning from others

The council has carried out extensive consultation and dialogue with a range of outside organisations to achieve a better understanding of the PFI market and the implications for regional objectives in the south east of England. Organisations contacted include:

- Major PFI contractors.
- Officers at Birmingham and Portsmouth City Councils and other local authorities interested in PFI.
- 4ps; Audit Commission; GOSE; Partnerships UK; SEEDA; SEERA.

9

Timetable

The council has been developing this PFI since 2003, and 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:

Table 7: Record of progress to date

September 2003	The council approved the preparation of a PFI EOI
Late 2004	Mott MacDonald retained by the council to advise on PFI options
December 2004	Staff consultation began
20 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 February 2006	DfT HM Pathfinder letter published
22 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

The council has consulted the market place and professional advisors and believes that the project timetable set out below is both realistic and achievable. The council has allocated considerable resources to develop the project and a significant amount of work has already been undertaken on the preparation of the OBC to expedite the PFI programme. The council is confident that early submission of the OBC will be achieved in line with the dates set out below. The council fully recognises the need to work in partnership with the DfT as part of this pathfinder process.

Table 8: Proposed timetable

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 advisors
June 2007	Publication of Official Journal European Union Notice
August 2007	Issue of Pre-Qualification Questionnaire (PQQ) and information pack
September 2007	Completed PQQs returned, evaluated and long- list completed
September 2007	Open competitive dialogue and Invitation to Submit Outline Solutions (ISOS)
November 2007	Evaluation, dialogue and approval of short-list
December 2007	Refinement of key documents to reflect issues raised
January 2008	Issue Invitation to Submit Detailed Solutions (ISDS)
July 2008	Evaluation, clarification and dialogue on detailed solutions
October 2008	Close competitive dialogue and call for final tenders
November 2008	Final tender completed
January 2009	Final evaluation and selection of preferred bidder
February 2009	Commencement of mobilisation
May 2009	Commencement of contract

The Island has many advantages that support its selection as a partner in a Pathfinder Scheme for PFI Highway Maintenance project. Support is strong, need is great and the council has put in place the necessary resources and project structure to successfully deliver an innovative and efficiently run PFI project. Our track record on PFIs is good as evidenced by our successful Integrated Waste Management Contract. Access to the Island is excellent with over 350 ferry crossings every day and planning for this vital increase in economic activity has already commenced with all our key partners.

There is nowhere else in the UK that has the opportunity to bring such joined-up benefits through a Pathfinder Highways Maintenance PFI. The Isle of Wight is a resourceful place, but cannot afford to tackle the maintenance backlog, which has now taken on national funding proportions. The Department for Transport has a pivotal role in providing a clear catalyst to support innovation in a well-managed environment and the Island community urges the Minister to confirm Pathfinder status to trigger all the benefits outlined in this document.