



PFI Expiry Health Check Report: Staffordshire Street Lighting PFI

1. Executive Summary

Project	Review Date	Expiry Date	Expiry Readiness
HMT ID 255 – Staffordshire Street Lighting PFI	28 Jun 2022	18 May 2028	Amber
<p>Operation and maintenance of 108,000 street lighting assets including a continuous replacement programme for age expired lighting columns.</p>			
<p>This project has been well-managed to date with excellent operational performance, good working relationships with the service operator, EON, and no significant asset condition concerns. The expiry readiness rating of Amber (<i>moderate additional work to achieve target readiness, significant issues exist that require management attention</i>) reflects the following:</p> <p>Recommended / necessary Senior Leadership actions within the Council:</p> <ul style="list-style-type: none"> ● Securing appropriate core staffing for contract “business as usual” (BAU) and expiry ● Refreshing or clarifying governance arrangements, including a specific senior executive level (SRO) appointment/responsibility for expiry/future service planning ● Ensuring availability of specialist support (legal, procurement, HR and financial) to implement expiry and service transition ● Early planning/direction of travel on future services <p>Recommended / necessary project level actions:</p> <ul style="list-style-type: none"> ● Deepening awareness of the contractual provisions relating to expiry through a more formal contract review ● Developing current actions and processes into a formal expiry plan, including linked relationship and commercial/technical summaries and expiry risk register, to help shape and communicate the expiry process to all stakeholders ● Intensifying/refreshing auxiliary monitoring and the validation of Asset Management System (AMS) information with a view to checking expiry related technical risks (as EON is essentially self-monitoring) ● Defining and agreeing with EON the detailed implementation terms and scope for the Reversion Report <p>These recommendations, including suggested timings and rationale, are set out in more detail within this report. The Infrastructure and Projects Authority (IPA) would be pleased to discuss these recommendations, which are intended to help create a ‘pathway to Green’ (target readiness for expiry).</p>			
<p>IPA Next Steps:</p> <ul style="list-style-type: none"> ● Follow up meeting with Council to discuss/clarify IPA recommendations and explore whether further support is required: By September 2022 ● Next Expiry Health Check: Spring 2024 			

2. Contract Information

PFI Project Name	HMT ID 255 - Staffordshire Street Lighting PFI Operation and maintenance of 108,000 street lighting assets including continuous replacement programme for age expired lighting columns.
Procuring Authority	Staffordshire County Council
Departmental Sponsor	DfT
Name of Project Lead from Authority	Emily Madsen (Acting Contract Manager)
SPV Name	Lighting For Staffordshire Limited (04636331)
Investor(s)	EON (60%) and 3i (40%)
SPV Manager	Infrastructure Managers Limited (3i)
Key Contractor(s)	EON Energy Solutions Limited – Service Provider for all elements of project operational delivery
PFI Financial Close Date	31 March 2003
PFI Expiry Date	18 May 2028
Time to Expiry	5 years 10 months
Outstanding Project Debt	Bank of Scotland (Lloyds) c.£1m (Maturity Sept 2025 – 2.7 year tail)
Original Capital Expenditure (£m)	£16m (Initial Apparatus Renewal Programme)
Annual Unitary Charge Payment (£m)	£8.0m (before energy costs)
Total Unitary Charge Payment still to be paid from now until Expiry (£m)	£50.0m

3. Project Description

The contract covers the refurbishment and operation of public lighting within Staffordshire County Council. There are currently c.94,000 street lights and c.14,000 other assets including illuminated signs, subway lights and bollards. Ownership of the street lights will revert to the Council on expiry (£ nil) with clearly defined condition requirements.

There is an ongoing maintenance and replacement programme for the apparatus. The Initial Apparatus Renewal Programme or IARP (first 5 years of contract) replaced 27,000 items of apparatus, and by the end of the contract the Annual Apparatus Renewal Programme or AARP (year 6 to year 25) will have replaced a further 47,500 items at an initial rate of 2,600 per year which has now dropped off to 2,200 per year. Approximately 25,000 of the original (pre-PFI) assets that are within their design life will remain in situ at expiry. Payment is based on availability. Energy costs (including any savings from LED conversions) are fully passed through to the Council.

There was a significant contract variation in 2021 to replace 47,000 discharge lamp lanterns with energy and maintenance saving LED based lanterns over a four year programme. Further 'invest to save' LED programmes for the remaining discharge lanterns are envisaged before the end of the contract.

EON appears to be running the contract very efficiently as evidenced by the “Percentage of Lights Lit” measure which is in the range 99.0-99.5%, and well in excess of the 98.0% target.

The existing contract manager, who has run the contract for many years, is currently on extended sick leave and will be retiring on 7 September 2022. The organisational structure and team succession plan needs to be updated to reflect that other dedicated lighting staff are nearing retirement at contract end and to prevent a gap in specialist lighting experience and knowledge.

The key business risks / issues relating to expiry on this project are:

- Ensuring resourcing (including specialist resources) for BAU and contract expiry
- Practical scoping and implementation of the final survey (Reversion Report)
- Defining follow on service delivery, associated information requirements and potential liabilities (e.g. TUPE)

4. Summary Contract Expiry RAG Rating
(see Annex 1 for Methodology)

Overall Contract Expiry Readiness (June 2022)	Amber
<p>This has been a well-managed project with excellent operational performance. There has been a high degree of practical collaboration between the Council and EON as demonstrated by the 2012 Contract Modernisation and the first phase of the 2021 Invest to Save LED initiative. EON has been proactive at detecting and solving issues, and the Council would willingly consider a future contract with EON.</p> <p>Contract awareness has recently been negatively affected as the longstanding contract manager is on extended sick leave and will now be retiring on 7 September 2022. The existing team clearly understands the importance of planning early for expiry and is keen to start this process with support from the council’s Senior Leadership Team (SLT), including allocation of corporate support (HR, procurement, legal and finance). It is known that there is a shortage of legal, procurement, HR and financial resource within the organisation, which is a concern for the upcoming closure.</p> <p>The asset condition appears to be good and this project benefits from a fairly smooth rolling apparatus replacement programme throughout the 25 years, thus ironing out the large future replacement peaks that will impact other schemes. Of the 108,000 individual assets, only around 3-4% are thought to require closer investigation as expiry approaches.</p> <p>Contract monitoring has been undertaken by the Engineering Certifier (EC) who is an EON appointee/employee. The Council performs “auxiliary monitoring” of the EC, although we recommend this should intensify particularly as expiry approaches</p> <p>The Council is in a strong contractual position in terms of clearly defined expiry conditions, a final survey at 27 months prior to expiry, and a right to withhold up to the full Unitary Charge (UC) in the final two years if remediation measures are necessary. There is some limited concern regarding the scoping of the final survey as the contract is short on practical detail. Contractual information rights are strong and EON has been open and helpful with all information requests to date. The bulk of the asset related information resides in a well-functioning Apparatus Management System (AMS) to which the Council has full access with no concerns regarding handover on expiry.</p> <p>All alternative future delivery models remain available, including delivery through the council’s strategic partnership with Amey (or an alternative future provider), a new standalone contract or even establishment of the council’s own in-house delivery vehicle. TUPE implications are expected to affect up to 25 people.</p> <p>Recommendations arising from the above points are set out in Section 5 below.</p>	

5. Detailed Recommendations

Based on the information provided in the Health Check interview sessions, the following recommendations are made. The Authority should consider the points raised and seek to implement the recommendations to improve its readiness for contract expiry. The Health Check is expected to be a periodic assessment and the Authority should aim to demonstrate progress in the period between each assessment.

Recommended actions have been prioritised by IPA using the definitions below, which are consistent with definitions used by IPA across its major project assurance programmes:

- **Critical (Do Now)** – To increase the likelihood of a successful outcome it is of the greatest importance that the programme/project should act immediately
- **Essential (Do By)** – To increase the likelihood of a successful outcome the programme/project should act in the near future.
- **Recommended** – The programme/project should benefit from the uptake of this recommendation.

1. Contract Awareness & Management	Amber	
Summary		
<p>The project company was originally majority owned by ABB Holdings Limited and its shares were transferred to EON in August 2008. Simultaneously, the original ABB service provider's rights and obligations were novated to EON UK Energy Services Limited. The Council has the full bible of documents relating to this acquisition.</p> <p>In December 2012 there was a further significant Deed of Variation (DoV) to the project documents which is known as the "Contract Modernisation". This DoV was the result of a negotiation between EON and the Council due to the early failure of columns programmed for replacement in the later years of the contract. In return for EON increasing early column replacement expenditure, the Council relaxed the cyclic maintenance periods from annual to every 3 years and also reduced the requirement for asset replacement works to be completed in 5 year phases, thus creating one remaining 15 year phase. The Council has the bible for this DoV which comprises a conformed PA and services subcontract.</p> <p>Contract awareness has been impacted by the sudden absence due to ill-health of the Council's long-standing contract manager. He is now planning to retire early on health grounds. The Council's Principal Lighting Engineer has a strong technical knowledge of the project dating back to its inception in 2003, but both he and his dedicated lighting staff are nearing retirement at contract end and this may leave a gap in specialist lighting experience and knowledge. The current acting project manager, who is also the Principal Engineer working on traffic signalling, has a good appreciation of the requirements but is naturally facing a steep learning curve.</p> <p>The team are acutely aware of the importance of planning, resourcing, and setting up a suitable governance structure for the expiry process. Consequently, there is no expiry resourcing or plan at this time, although they intend to raise the issue with the Council's SLT including the S.151 Officer and request support by assigning required specialist procurement, legal, HR and finance business support resources.</p>		
Recommendations	Ranking	Do By
Ensure that the interim contract manager is appropriately supported, with longer term commitment of specialist resources to initiate the planning and preparations for contract expiry and service transition	Essential	From now

Appoint SRO for expiry and refresh the PFI governance arrangements to support both BAU and expiry	Essential	By Dec 2022
Review contract terms, especially expiry, hand-back and information provisions with legal and technical support as necessary.	Essential	By Dec 2022
Develop an expiry plan which includes the funded resourcing plan and an expiry risk register	Essential	By Mar 2023
2. Relationships	Amber/Green	
<p>Summary</p> <p>The team reports that the relationship with EON has always been very good, open and collaborative. Examples were cited of prompt responses to issues and of a highly proactive approach by the service provider. Some minor issues were mentioned, but these were not considered significant overall. The team felt that they would be happy to consider EON as a prospective bidder for a possible follow-on contract.</p> <p>We note that due to the nature of the contract, the operational relationship is heavily focused on the service provider, whilst the relationship with the project company (majority owned by the service provider) is largely a finance/admin function relating to invoicing and payments.</p> <p>The main future relationship concern relates to agreeing the scope of the Reversion Report (which is essentially the final independent survey 27 months prior to expiry). This is covered under Asset Condition below.</p> <p>The Amber–Green rating reflects the potential impact on the management of relationships until the uncertainty as to the contract manager position, and associated lack of clarity as to overall project governance, is resolved as part of an ongoing wider highways transformation programme. The underlying relationship with EON is viewed as Green.</p>		
Recommendations	Ranking	Do By
In connection with the refresh of governance structure, develop a stakeholder management plan to help clarify roles and relationships at all levels.	Recommended	By Mar 2023
3. Asset Condition	Amber	
<p>Summary</p> <p>This contract benefits from a much more balanced asset replacement programme throughout the life of the contract than many other street lighting PFI projects where the replacement programme is front loaded with a large Initial Apparatus Renewal Programme (IARP), and a much smaller Annual Apparatus Renewal Programme (AARP). This eradicates the need for another major asset replacement programme in the early years of a follow-on contract. However, it also means that active monitoring of renewals beyond the IARP is more important than in other contracts.</p> <p>The required expiry condition of the assets is clearly prescribed in the Services Specification in terms of structural, electrical, and optical integrity. The risk of assets failing any of these three criteria is largely mitigated as follows:</p> <ul style="list-style-type: none"> - Structural – no steel/concrete columns will be older than the 40/45 years design life at expiry (with exception of a small group of sleeved concrete columns, see below). In addition to 3 yearly checks, all columns are structurally tested/inspected at 35 years and rated, with follow up inspection intervals based on the severity of the rating. All 		

painted steel columns (which are more prone to deterioration) will have been replaced at expiry with longer life galvanised steel columns.

- Electrical – full electrical safety testing is carried out at 6 yearly intervals (visual inspection 3 yearly) and logged on the AMS. The Council does not therefore envisage a significant quantity of electrical issues on expiry.
- Optical – LED lanterns have been gradually implemented since 2012, boosted in 2021 by the Phase 1 “Invest to Save” LED programme. The Council anticipates two further phases resulting in all the old discharge lamps being replaced as part of the contract, hence virtually no LED lights will be older than 10 years at expiry. Illuminance checks are carried out regularly and monitored by the Council which can pick up early failure patterns. One example was given where EON found a systemic problem with a particular LED lighting product which affected 1200 columns. It was quickly identified and is being rectified at EON’s cost.

Only two categories of columns are considered by the technical team as meriting specific investigation regarding expiry condition risk:

- The above-mentioned sleeved concrete columns (approx. 200) which actually date back to the 1960s although the recorded date reflects when they were sleeved. These columns are likely to be extremely robust, but need checking.
- There are approximately 3000 slimline Stanton & Staveley 1805/2005 columns which have known design faults but can be strengthened/sleeved if necessary (installed late 80s/early 90s).

Technical monitoring of the assets and service quality is carried out by the Engineering Certifier (EC). The contract requires this role to be carried out by a Special Purpose Vehicle (SPV) appointed engineer and it is currently undertaken by an employee of the service provider, therefore EON is effectively self-reporting technical compliance. As a result, Auxiliary Monitoring has been implemented whereby the Council engineers witness a proportion of the monitoring carried out by the EC. We understand that this has worked well to date, although we note the original EC has just retired and a new person has recently taken over.

Given that EON appears to be in control of choosing the locations and operatives to be audited, we would recommend a more randomised checking of apparatus samples (new and existing installations) to be specified by the Council rather than by EON’s EC. We would also recommend that information on the AMS is independently validated by the Council (rather than via the EC) to ensure the necessary cyclic maintenance, electrical testing and structural testing has been carried out in accordance with the contract. The perception by the IPA that there is risk in the current extent of monitoring is a key factor behind for our present Amber rating of Asset Condition.

The contract stipulates that an independent Reversion Report is carried out 27 months prior to expiry (Autumn 2025) to identify any rectification works. Given the small scale of potential problem assets, the team do not believe it is necessary to carry out an earlier survey prior to the Reversion Report survey (although this should be reconsidered if Auxilliary Monitoring reveals problems). They are also satisfied that there will be no significant risks in relation to new asset accruals, attachments (including third party), or wayleaves due to the procedures and AMS logging of these items.

The main concern voiced by the team is agreeing practical scoping of the Reversion Report – particularly with regard to the proportion of the inventory that can be included in the survey – as the contract is silent on this. It is therefore recommended that the scope and methodology for the Reversion Report, including the terms of reference for appointing an independent engineer to undertake the report be agreed with EON at the earliest opportunity.

Recommendations	Ranking	Do By
As part of the Council’s Auxiliary Monitoring of the Engineering Certifier we recommend moving to a more Council led sampling of	Essential	Ongoing

asset condition (both physical asset and AMS checks)		
Agree detailed scope and the terms of reference for appointing an independent engineer for the Reversion Report with EON,	Essential	Latest Mid 2024
Identify potential problem assets such as the older sleeved concrete columns and plan more detailed analysis and inspections on these	Recommended	By end 2023
4. Commercial	Amber/Green	
<p>Summary</p> <p>Although the contract is pre-SOPC (Standardisation of PFI Contracts), the Council's commercial position at expiry is strong with the final survey (Reversion Report) at 27 months before expiry coupled with the right to withhold up to the entire Unitary Charge (UC) over the final two years of the contract should remedial works be required. The expiry condition of the assets appears to be clearly set out in the Services Specification although the team have still to fully familiarise themselves with this.</p> <p>The central information database is the AMS to which the Council already has full 'read only' access. All reports required to date have been generated with the assistance of EON, and it has never been necessary to enforce the contract's contractual information rights to achieve this. It was noted that the current AMS (based on GeoWorks, which is the third evolution of AMS in the life of the contract) is far better than the minimum system outlined in the contract in terms of information held, and no issues are anticipated in respect of the transfer to the Council (or a new contractor) on expiry.</p> <p>In addition to the AMS, there may be other information and data required to operate the service post expiry, such as warranties, certificates, wayleave documentation etc. We therefore recommend that all such information is identified, verified to exist, and agreed with EON to be transferred to the Council (or a new contractor) on or before expiry.</p>		
Recommendations	Ranking	Do By
Capture within a plan the processes for ensuring that asset condition risk is understood and managed to the agreed contractual condition by expiry, which can be used to inform Council stakeholders.	Essential	By Mar 2023
Create a data list of all wider information that will be essential for managing the asset post expiry and agree the provision of this with EON.	Recommended	By Mar 2023
5. Future Service Provision	Amber	
<p>Summary</p> <p>With expiry still nearly 6 years away, the Council has not determined the precise form of the future service provision. All alternative future delivery models remain available, including delivery through the council's strategic partnership with Amey (or alternative future provider), a new standalone contract or even establishment of the councils own in-house delivery vehicle.</p> <p>While it is expected that all of the operatives would TUPE transfer to a new contractor, there may be TUPE issues related to the design and managerial staff (approx. 25 staff), depending upon the form of the new contract. This aspect has not yet been explored.</p>		

<p>We understand that all depots, plant and equipment utilised in the current contract are owned by EON and would need to be purchased or re-provided by any replacement contractor.</p> <p>Whilst this is not, currently, a particular risk concern to IPA, we would recommend that an outline plan for future services, identifying key considerations and the process for further determination, is drawn up as early as possible to help provide direction and focus to the PFI expiry preparations and transition planning, hence our Amber rating.</p>		
Recommendations	Ranking	Do By
Early outline strategic planning of future services by Council SLT to help give direction to PFI expiry and transition planning	Essential	Mid 2023
Consider potential TUPE liability issues with design and back-office management staff, to help inform future service planning	Recommended	Mid 2023

6. IPA Follow-Up

IPA Follow-up	
<ul style="list-style-type: none"> Follow up meeting with Council to discuss/clarify IPA recommendations and explore whether further support is required Scheduled follow up Expiry Health Check 	<p>September 2022</p> <p>Spring 2024</p>

7. Health Check Information

The PFI contract expiry Health Check is a periodic assessment carried out by the IPA with representatives from the department and/or the procuring authority. The process is designed to assist with the planning of PFI contracts that are nearing expiry.

Health Check Interview Date(s)	28 th June 2022
IPA Team (Staff & Representatives)	Christian Tyson Richard Spencer Hamid Butt (DfT) Sabiquah Bhuiya (DfT)
Department / Contracting Authority Interviewees	Emily Madsen (acting contract manager) Glynn Hook (principal lighting engineer) Rachel Spain (corporate finance officer)
Health Check Report Issue Date	22 August 2022
Health Check Report Issued By	Christian Tyson, Project Director
Health Check Report Issued To	Darryl Evers (Director E,I & S – incl Highways); Emily Madsen

Annex 1 - Risk Rating

The RAG scores below are based on discussions which have been had throughout the Health Check. Each question has been assessed and evaluated against defined criteria in order to determine how ready the Authority is for contract expiry.

For each Health Check an authority is provided with an overall RAG score that denotes the level of work required in order to achieve a successful contract expiry. In addition, an authority is provided a RAG score for each section of the Health Check to clearly identify what areas are of priority in navigating the contract expiry process. The RAG descriptors for the overall and section ratings are as follows:

RAG Score	Red	Red / Amber	Amber	Amber / Green	Green
Overall	Critical additional work required to achieve target readiness	Major additional work required to achieve target readiness	Moderate additional work required to achieve target readiness	Limited additional work required to achieve target readiness	At target readiness given the time to expiry

Recommended actions have been prioritised by IPA using the definitions below, which are consistent with definitions used by IPA across its major project assurance programmes:

Critical (Do Now) – To increase the likelihood of a successful outcome it is of the greatest importance that the programme/project should take action immediately

Essential (Do By) – To increase the likelihood of a successful outcome the programme/project should take action in the near future.

Recommended – The programme/project should benefit from the uptake of this recommendation.

This PFI contract expiry health check was arranged and managed by:

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More information about the Infrastructure and Projects Authority and guidance for central government bodies or the requirements for integrated assurance and approvals is available from:

<https://www.gov.uk/government/organisations/infrastructure-and-projects-authority>