CASE STUDY

ISLE OF WIGHT ROADS PPP

LONG-TERM ASSET MANAGEMENT APPROACH: 7 YEARS OF CAPITAL IMPROVEMENTS, 25 YEARS OF MAINTENANCE

OVERCOMING CHRONIC PROBLEM OF INSUFFICIENT ROAD FUNDING: £150M CORE INVESTMENT

ENSURING DELIVERY OF HIGH QUALITY SERVICE: PERFORMANCE STANDARDS

TRUE PARTNERSHIP: SUPPORTING COMMUNITIES, FLEXIBILITY TO ACCOMMODATE THE CLIENT’S CHANGING NEEDS
A 25-year Public Private Partnership has produced a substantive and positive difference on the Isle of Wight: major investment through the PPP has transformed road conditions; a shift to ‘whole-life’ asset management has improved the efficiency of highway maintenance on the island; and a proactive approach to partnership is building long-term social benefit.

Residents of the Isle of Wight (IoW) and a large number of seasonal holidaymakers have seen the condition of the island’s road network go from being the worst in the UK, to among the very best. By summer 2020, over 800km of roads and 29km of cycleway will have been resurfaced, as part of a programme of work which has also improved bridges, street-lighting, drainage, urban footways and street furniture on the island.

All of this has been done through a Public Private Partnership project undertaken between Isle of Wight Council and Island Roads – a partnership between Meridiam and Vinci Concessions. Island Roads has injected £150m in the IoW network of roads and streets, as part of a PPP project worth £800m in total, including contributions to be made by central Government over the 25-year length of the concession. The size of the investment forms the basis for the first – and arguably the clearest – comparison between PPPs and conventional highway maintenance services.

The PPP model was applied to solve a common and chronic problem of insufficient funding. Local authorities have historically struggled to find sufficient resources from their capital budgets to halt the decline of the condition of their road networks. Highway engineers will be familiar with the process of ‘patch and mend’ that has resulted in most places due to annual maintenance budgets only being sufficient for minimal reactive repairs.

Getting on top of this problem, to reverse the deterioration, takes much bigger sums than those usually made available for local authority highway budgets and such was the case on the Isle of Wight.

According to a report by one of the UK’s largest unions, the GMB (General, Municipal and Boilermakers) Union, back in 2012 the IoW road network was the worst of all in the UK. Over half of it needed urgent attention and in places some major civil engineering was needed due to the island’s geology.

Fast forward to the present day and the situation on the island has become very different. Island Roads has met all of its contractual targets for raising road condition and the highway maintenance service has scored highly in an independent benchmarking report. Produced by consultant RPS, the benchmarking study has compared Island Roads with other highway services across the UK. It finds the IoW now leads the UK in repair of Category 1 defects within agreed timescales. It also comes top in safety performance and is either in the upper quartile or ‘improving towards’ it in all other categories.

These results are reflected in views expressed by the islanders. In 2015, a customer survey showed the quality of road surfacing on the island was rated as ‘average and above’ by 25% of residents and local businesses. By 2019, this had risen to 65% of people surveyed. The same rating for highway maintenance in general rose from 46% to 66% and for street-lighting the surveys showed an increase to 78%.

Councillor Ian Ward is a Conservative Elected Member of Isle of Wight Council. “I have been a Councillor on the island long enough to know how bad our roads were before the PPP began,” he says. The PPP has made a
tremendous difference. People are now actually saying how good the island’s roads are.”

Despite such an improvement, however, some are still opposed on principle to the PPP model, partly on political grounds. There is also the argument that the public sector can borrow more cheaply, so the private sector represents poorer value.

“That is true, the cost of private finance is usually higher than government borrowing,” says Island Roads Chief Executive, Phil Horton. “Some local authorities have obtained financing through the UK Prudential Borrowing scheme, but in the order of tens of millions of pounds, not sufficient funds for substantially improving the condition of whole networks.

“The blunt reality for the island, accepted by the majority of the Isle of Wight’s councillors, was that there was no other viable option than to embrace the PPP model for making a big difference to the island’s road network.”

Several other observations show there is a lot more to the comparison than simply the cost of finance. Transfer of risk, for instance, is a major plus point that comes with handing over responsibility to a private sector supplier, for delivering all that is specified in the contract. The Council has the certainty that Island Roads will bear all of the labour, materials and other costs involved in carrying out the work.

“In one or two cases, specific parts of the IoW road network have proven more expensive to fix than anticipated in the contract, but the price was fixed. The Council was not liable for these additional costs,” Phil says.

The transfer of responsibility, over a 25-year term, also brings a significant shift in decision making – towards the greater

**PPP ADVANTAGES**

Capital investment Public Private Partnerships are widely recognised as the only realistic means of raising and injecting the large amounts of investment needed to significantly improve the condition of whole local road networks. Public sector finance can be raised at a cheaper price, but this is largely theoretical, as practically the long-term risks are too great to allow local government to borrow the substantial sums required.

- **A long-term asset management approach**
  Injection of capital investment and transfer of risk and responsibility over a long contract term allows whole-life asset management to be adopted - improving roads and subsequently maintaining the asset in an acceptable condition.

- **Benefits in partnership**
  Such a regimented contractual regime can be difficult to manage and cause problems, however, without a close-working, true partnership approach - allowing flexibility and change if needed.

Asset management principles are recommended for all highway authorities, but real efficiency gains are made through a **long-term contract** with ring-fenced funding.

Highway PPP contracts establish performance standards, which ensure delivery of a high-quality service.

A balanced approach is necessary, recognising what is really important for the road network, specific environments and local communities.

A true partnership evolves from good practice in corporate governance at a PPP project board level, combined with a proactive approach to liaising with and supporting local communities.
efficiency of managing assets on the basis of whole-life cost rather than annual budgets.

"Typically, in most local authorities, decisions are made on a four-year cycle aligned with political cycles. The benefit of having a longer term investment is that the money is ring-fenced. Decisions on where to invest are made on the basis of the best, most cost-effective long-term benefit, rather than fixing assets in the worst condition first," Phil says.

Shifting to such an asset management approach is widely recognised to increase efficiency. Direct comparison is complicated by the IoW’s highway service now being quite different to that carried out before, Phil says. But the cost of the Council’s reactive road maintenance activity has reduced, by around £1m every year, in line with findings where a similar approach has been applied elsewhere.

The UK’s Department for Transport has introduced a funding system to incentivise more authorities to adopt asset management approaches. Savings of up to 15% are possible for councils that fully embrace the principles, according to the DfT sponsored Highways Maintenance Efficiency Programme.

The long-term nature of the PPP is crucial. A significant financial benefit comes from Island Roads being in a position to invest over a 25-year period.

"A classic example is in winter maintenance. There are substantial savings to be made from investing in the necessary plant and equipment over the long term rather than on a four-year cycle," says Phil. He acknowledges that this is a benefit to be had from other, conventionally procured, long term contracts, but the PPP model goes significantly further than the usual duration of five years (or five plus a two-year renewal) allowed through government procurement rules.

The partnership aspect also brings a social commitment, which is arguably the biggest benefit of all to be had from such a long contract. Island Roads has evidently bought into the notion of playing a significant responsibility and a major presence on the Isle of Wight until 2038. For instance, the organisation’s principal contractors Eurovia and Ringway have committed to employing locally — over 90% of their employees live on the island — and both firms are training a number of apprentices.

"Over the duration of the PPP, someone could start with us as an apprentice and end up as our CEO by the time we’re finished," Phil says.

This is part of a wider observation on the social aspects of the IoW PPP. The £150m core investment — plus the circa £19m of annual maintenance — are producing a large amount of economic benefit for the island and its communities. Eurovia and Ringway are using local subcontractors (about 150 IoW companies have been involved) in the programmes. Island Roads has injected £150m of investment in the IoW network of roads and urban streets. As well as carrying out a seven-year programme of capital improvements — which also includes some significant groundworks and civil engineering — Island Roads will maintain the IoW road network to keep it at an agreed satisfactory standard for 25 years.

Repayment to Island Roads consists of a standard unitary charge, supported by a £260m grant from the UK Government, plus a fee the Council is paying for Island Roads’ annual maintenance work. In total around £800m will be invested in the IoW network over the life of the PPP contract.

The scope of the highways service is ‘fence to fence’, involving reconstruction of carriageway and footways and replacement of all of the island’s 13,000 streetlights with LEDs, to reduce electricity and maintenance costs. Island Roads’ operation and maintenance contractor Eurovia is also carrying out routine maintenance, which includes the replacement of road signs and markings, street cleaning, cyclical maintenance of streets and vegetation and provision of the island’s winter maintenance service.

Furthermore and significantly for the IoW’s road network, Island Roads’ construction teams have carried out major civil engineering at around 20 locations to provide lasting solutions to some chronic problems of ground movement. The island’s geology is famously varied, characterised by layers of chalk, sands and clay over sandstone strata. Landslips have occurred frequently, particularly in coastal areas, with a variety of temporary repairs carried out over time.

In some places, a patch and mend approach remains the most appropriate, while at others, the PPP has presented opportunity for more long lasting reconstruction with deep piling and ground and road reconstruction. At Bouldner Road, for instance, piles of over 15m in length have been used, the road has been rebuilt and opportunity has been taken to carry a lot of other routine maintenance in one visit to minimise disruption over the long term.

THE ISLAND ROADS ‘FENCE TO FENCE’ SERVICE

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involved so far) and the majority of the raw materials for the road and footway reconstruction have been sourced from a quarrying operation established by Eurovia on the island.

Forging a strong relationship with the IoW’s communities has become a priority for everyone involved. “Island Roads has contributed significantly to the Isle of Wight, through improving its roads and by taking a physical interest in the community,” Ian Ward says. The whole Island Roads organisation has put a lot of effort into embedding itself in the island and supporting community groups, which I think are tremendous benefits.”

The Island Roads Foundation, a charitable fund set up by the PPP partners and main contractors, is supporting a wide variety of local charities and educational projects, to the tune of over £400,000 so far. “Forging community connections, including a great deal of proactive communication, is an important strand of what we do,” Phil says.

Minimising disruption is central to the performance standards laid down in Island Roads’ concession. The core investment period was extended to seven years from the usual five of other highway PPPs, to allow virtually all of the road resurfacing work to be carried out during spring and autumn months; recognising that tourism is the biggest contributor to the island’s economy and that minimal opportunities exist for route diversions on the island.

Informing residents and businesses affected is a big part of each discrete maintenance project of the overall programme. Phil says: “We have three levels of maintenance schemes: gold, silver and bronze, defined by the amount of disruption expected and where bronze has the least impact. Communication and liaison efforts with local communities are tailored accordingly.”

An example is the gold scheme carried out recently along the length of the Shanklin Esplanade on the island’s south east coast. The Esplanade is effectively a cul-de-sac. Disruption for businesses and residents during reconstruction of the road was unavoidable.

“We carried out a full communication campaign including letters to all residents, media and local councillors,” says Phil. “To thank everyone for their understanding we held a free music concert, which we hope also attracted some additional revenue for businesses along the seafront.”

Such close liaison has paid off in terms of feedback and public perceptions. “People like to be kept informed and we find that on the whole, everyone is happy with the work being done, providing they know what is happening, why it is being done and when it will be carried out,” Phil says. “This all ties back to our commitment to work with local communities. We have over 200 employees living on the island, so we are effectively integrated as a long-term partner.”

Some important lessons have been learned from the IoW PPP. For instance, communication of the rationale behind the works programme could have been explained better.

When it was planned, the decision was made to improve road condition as evenly as possible across the island, so not being seen to favour one area over any other. This has led to Island Roads’ contractors moving back and forth across the IoW repeatedly during the core investment period. “This was not the most efficient way of doing things, but it was the necessary approach, politically,” says Phil. To the islanders, this also gave a confusing appearance of contractors finishing discrete projects, moving away to other parts of the island, then returning to begin work again nearby. “There was logic to how the programme was planned, but we could have explained better how it was going to be done and why,” Ian Ward says.

Also with regard to how the contract was devised, Island Roads has been working to a very wide ranging and complex system of 421 different key performance indicators, which could have been simplified. “There’s a good and bad side to having KPIs,” says Phil. “On the one hand, they require things to be done or delivered to a certain standard and if that level is not met there is a financial penalty to pay, which drives performance and on the whole, such a system works well.

“However, what is commonly found in contracts, is that people will tend to focus purely on hitting the particular target that they are working towards, sometimes at the expense of considering what’s best for the service overall. KPIs are essential, but 421 is too many. A better approach is to get the right balance, by setting a smaller number of financially incentivised...
Island Roads, its shareholders and principal subcontractors formed the Isle of Wight Foundation soon after the project concession started. The aim is to tackle social exclusion; ensuring everyone has a place and a role in society and feels valued within it.

The Foundation is a registered charity and receives around £80,000 every year in donations and contributions from the shareholders and partners of Island Roads. Each year the organisation invites applications for funding from local projects. Grants of between £3,000 and £16,000 are awarded, to support two key themes: access to employment; and building better communities.

Projects selected to receive grant funding from the Foundation have included the GROW (Giving Residents Opportunities and Wellbeing) project, which helps young disadvantaged people of 16-25 to gain education, training and employment.

A case in point relates to how street-lighting is used. The timing and brightness of lighting can be reduced with minimal impact on service, but significant reduction in cost. Likewise, the frequency of grass cutting can be decreased appropriately in rural locations. In many cases, it is better to do so for wildlife.

Despite these changes made to the contract, the IoW PPP still represents good business for Island Roads and its partners. Clive says: “The challenge for us is to ensure the original aspirations are still delivered and that nothing adversely affects the IoW community and the highways service. We are delivering savings, but doing it in a way that is sustainable.”

The Chairman of Island Roads’ executive board is Clive Pitt. He says: “The highways service that the island has been getting has been really good. The performance standards ensure that we and our contractors only get paid if the work is done right and the Council gets a service that gives certainty over delivery time, performance and quality. But we have taken a look at whether some things in the specification were unnecessarily high in some places.”

The performance standards and repayment terms laid down in the IoW PPP concession contract were devised before local authorities started to feel the full impact of UK austerity budget cuts. As Island Roads’ work progressed, a mismatch became apparent, between the very high standards of the IoW’s highways service and what could be afforded realistically, given that the Council has other vital services to deliver within a limited budget.

The standards of the highways PPP are not set in stone, however. Again, the island has benefitted from some good governance and a proactive approach to working in partnership. The Council and Island Roads have negotiated a reduction in some aspects of the highways service.

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The work of the Foundation has carried on in the same vein every year. Other beneficiaries include Ability Dogs for Young People, Shanklin Football Club, Storeroom 2010 (helping the unemployed), the Blue Sky Arts project, YMCA Young Carers and Break the Cycle - Mind the Gap – helping the homeless and the survivors of homelessness to get support, self-esteem and confidence.