



Coventry City Council

Council Meeting

21 February 2006

Booklet 3

Recommendations

INDEX TO MINUTES

Page Nos.

Cabinet	
21 February 2006	1

CABINET

21st February, 2006

Cabinet Members
Present:-
Councillor Arrowsmith
Councillor Blundell
Councillor Foster
Councillor Kelsey
Councillor Matchet
Councillor H. Noonan
Councillor O'Neill
Councillor Ridley
Councillor Taylor (Chair)

Non-Voting Opposition
Representatives present:-
Councillor Duggins
Councillor Mutton
Councillor Nellist

Other Members
Present:-
Councillor Charley
Councillor Mrs. Johnson (by invitation, for the consideration of
the matter dealt with in Minute 216)
Councillor Gazey

Employees Present:-
D. Blackburn (City Services Directorate)
J. Bolton (Director of Community Services)
R. Brankowski (Legal and Democratic Services Directorate)
A. Brown (City Services Directorate)
F. Collingham (Chief Executive's Directorate)
M. Coult (Finance and ICT Directorate)
J. Daly (Finance and ICT Directorate)
M. Green (City Services Directorate)
R. Hughes (Head of Corporate Policy)
T. Jones (City Development Directorate)
S. Manzie (Chief Executive)
S. Munday (City Development Directorate)
K. Rice (Head of Legal Services)
C. West (Education and Library Services Directorate)

Apologies

Apologies for absence were received from Councillor Mrs. Stone.

RECOMMENDATION

218. PFI Street Lighting – Submission of an Expression of Interest

The Cabinet considered a joint report of the Director of City Services and the Director of Finance and ICT seeking approval for the submission of an Expression

of Interest (EOI) to the Department for Transport (DfT) for the securing of Private Finance Initiative (PFI) credits for Street Lighting.

The report indicated that the Government announced in November 2005 that £600m in PFI Credits would be available to address the continuing problems of deterioration in street lighting stock. Interested councils were required to prepare an EOI to be received by the Department for Transport by no later than the 24th February, 2006.

The City Council's Highway Maintenance Strategy (adopted in February 2005) outlined the challenges facing Coventry in maintaining the integrity of its aging street lighting network. It set out considerations for potential sources of funding to ensure that maximum benefit is obtained for maintenance investment. One of the potential sources of funding is PFI credits, which is a well-established and successful means of investment in street lighting service provision.

The Policy Priorities and Resources (PPR) review process recognised the necessity to improve street lighting and made available £1.4m for lighting column replacement in 2005/06.

An integral feature of the Council's first highway maintenance strategy was the development of a comprehensive Highway Asset Management Plan (HAMP). The publication of the HAMP in July 2005 and the consequent work to quantify the highway asset base, including street lighting, allowed the complete inventory for street lighting, signs and bollards to be finalised.

The detail is illustrated in the following table, which was in the report submitted:

Equipment Item & Type	Quantity
Concrete Columns	5,700
Mild Steel Columns	7,883
Galvanised Steel Columns	12,812
Cast Iron Columns	186
Aluminium Columns	1,977
Bracket Units	2,093
Raise and Lower Galvanised Steel Columns	242
High Mast Units	89
Subway Lights	721
Sub Total Columns	31,703

Illuminated Traffic Signs and Beacons	4,141
Illuminated Traffic Bollards	1,504
Sub Total Signs and Bollards	5,645
Grand Total	37,348

The age profile for lighting columns is shown in the following table:

Age Range	Quantity	Percentage
0 –10 years	6,046	19%
11-25 years	8,617	27%
Over 25 years	17,040	54%
Total	31,703	100%

In 2005, a technical survey of a representative sample of lighting columns was undertaken by a specialist company. The survey identified that up to 25 per cent of columns were in a poor condition even where they are not life expired.

Should the EOI not be successful, the Council would need to determine an appropriate level of investment taking in to account the issues set out below.

In order to significantly improve the City's street lighting, a sustained programme of capital investment is required. Because of the Government support that comes with it, the securing of PFI credits for street lighting is considered the most economically advantageous method of delivering the level of investment required.

The current levels of capital investment (£1.4m in 2005/06 and £1.4m proposed for 2006/07) are funding the replacement of 1,000 columns in each year. If the Council maintained this level of investment beyond 2006/07 it would take a further 28 years to replace the existing lighting stock only.

The Council could, however, be guided by the technical survey referred to above, which supports the requirement to invest capital resources of £2.1m per annum for five years and £1.4m per annum for a further 20 years to replace the existing lighting stock only.

The report indicated that a successful street lighting PFI contract would bring the quality of the City's street lighting infrastructure and services up to modern (European) standards within five years and would make a significant contribution towards delivery of the City Council's vision and objectives.

Creating and maintaining a high quality environment is fundamental to delivering the Council's vision of a growing city where people want to live, work and where businesses choose to invest. Delivering a step change in the quality of the City's

street lighting will make a major contribution to enhancing the local environment for people living, travelling and working in Coventry.

The improvements proposed would contribute to a number of the City Council's objectives, but particularly:

- (a) to create a city where people feel safe and confident and no-one is disadvantaged by the neighbourhood in which they live; and
- (b) to actively promote equality so that people from different backgrounds have similar life opportunities.

Reducing crime and the fear of crime can improve the quality of life in the City's communities and 17% of residents identified it as a priority for improvement in their neighbourhood in the Coventry Partnership Annual Household Survey 2004. Good quality street lighting is a key contributor to reducing crime. Improving road safety, and reducing road deaths and injuries is also a priority for the Council.

The Council recognises that the physical appearance of the streetscape in local neighbourhoods can have a significant impact on residents' quality of life. A poor quality street environment may give a negative impression of an area and poorly-lit or unlit areas may create a sense of insecurity in the hours of darkness. The street lighting EOI is designed to dramatically improve the quality of the streetscape across all local neighbourhoods by replacing existing lighting columns whilst, at the same time, increasing the numbers of lighting columns in these localities by around 25 per cent and providing lighting in areas of the City which are currently unlit, such as parks.

A high quality, well-designed and lit environment supports the Council's objectives for equality and independence by creating the conditions where walking, cycling and the use of public transport are realistic and attractive choices for all.

The Council has engaged external financial and technical advisers with extensive experience and a successful track record of advising and assisting local authorities in the preparation of EOIs for street lighting PFIs. Should the EOI be successful and the proposal progresses to the submission of an Outline Business Case (OBC) and subsequent procurement stages, suitably experienced advisors would be appointed to provide appropriate advice and support to the Council.

Council employees have visited a number of other local authorities across the country with street lighting PFIs in various stages of operation, from procurement through to operational delivery. From this early work, it is clear that the condition of Coventry's lighting stock and investment profile meets the parameters that the Department for Transport has indicated are required for successful bids.

The street lighting improvements that would be achieved from a successful PFI submission would be designed and procured to achieve and sustain delivery of high quality, value for money street lighting services, in line with the expressed views and expectations of local people and the priorities set out in the Local Transport Plan.

A small project group has been established drawing upon experience from across Council directorates and this group is co-ordinating the work required to complete the EOI.

The submission of an EOI does not commit the Council to progress to the OBC stage. However, there is a clear expectation from the DfT that, if the EOI were successful, the Council would progress to the next stage of submitting an OBC.

Key issues in the successful delivery of a street lighting PFI would be:

- (a) The transfer of the street lighting service including employees to a third party provider
- (b) Commitment to a 25 year contract (typically)
- (c) Approximately £63m of PFI credits
- (d) Commitment to provide funds to bridge the currently-estimated annual affordability gap of £1.3m and to meet the one-off project management costs of an estimated £0.5m
- (e) Formation of a Project Group with necessary specialist advisors to deliver the project
- (f) Replacement of 74 per cent (23,000 columns) of the existing lighting stock within the first five years of contract

As regards financial implications, in the 2006/07 budget being proposed to the meeting of the City Council on the 21st February, 2006, a revenue budget of £2.5m has been included for the maintenance of the existing service. There is also a capital sum of £1.4m to replace street lights identified in the technical survey.

The Council's own finance staff and its external advisors have produced the financial model and affordability analysis for the potential PFI project. These are based on the forecast costs to the private sector of providing the levels of service required by the Council in respect of street lighting provision. The actual cost to the Council will depend on the results of the procurement process, which would be completed to allow contract commencement in 2008/09.

The Council's advisors have worked with a number of other local authorities on street lighting PFI schemes and the financial modelling undertaken as part of the EOI is reflective of this experience. A requirement of the DfT regarding the preparation of an Expression of Interest is that the Council seeks input from experienced advisors.

Based on the information that the Council has provided to its advisors and using their broad-based experience of street lighting PFIs, they have calculated the following:

- (a) The Council should submit a bid for PFI credits of approximately £63m, which equates to an annual cash revenue grant of £5m for 25 years;
- (b) The Council will need to provide an additional revenue funding of £1.3m per annum, from 2008\09 onwards (the affordability gap).

In order for the Council to successfully procure the project, it will be necessary to obtain further specialist advice. Based on the experience from other similar PFI schemes, it is estimated that the costs of this specialist external advice (technical, financial and legal) will be in the region of £0.5m. Of this amount, approximately £70,000 will be required in 2006/07 and can be funded from within the resources already identified in 2006/07 for delivery of the Highway Asset Management Plan. The balance of £430,000 will need to be funded from within the Council's budget for 2007/08.

The Council's proposed medium term financial strategy to be presented to the Council meeting on the 21st February, 2006, includes the budget allocation of £1.3m referred to above for 2008/09 onwards. It also includes the estimated one-off project management costs of £0.5m.

The principal reasons for the affordability gap are the increase in energy usage resulting from the new lighting columns required to meet the European lighting standard, and the need to maintain and replace columns over the lifetime of the contract and provide additional columns in the unlit areas. The Council is continuing to work with its advisors to maximise the efficiency of the scheme and reduce this affordability gap.

Throughout the development of the EOI, the Council has sought advice from, and worked closely with, the 4Ps, the Local Government Association's Specialist PFI advice agency.

The report identified a range of specific implications related to the proposal.

As regards neighbourhood management, the implementation of a PFI contract, with the replacement of over 23,000 lighting columns within the first five years of operation, would require good communication and consultation links with local people. Area Forums would assist this process with regular progress reports taken to the Forums at key points in the delivery of the project.

The Best Value Reviews of Highways 2001 and Coventry's Street Scene 2004 - inspected by the Audit Commission in March 2002 and October 2004, respectively - both highlighted the need to develop properly-funded plans to replace the aging lighting stock. A successful street lighting PFI bid would address the issues identified in these reports and provide an affordable solution to the provision of good quality street lighting across the City.

With regard to comparable benchmark data, the report indicated that there are a number of successful street lighting PFI contracts already in existence across the country and that Coventry is required, within its EOI, to compare its stock condition against local authorities with similar lighting infrastructures.

Delivery of a successful PFI would contribute to the Coventry Community Plan by supporting the creation of safer and stronger communities by reducing the perception and incidence of crime and road traffic accidents and by enhancing the night-time environment.

In addition, reducing crime and the fear of crime are important contributors to improving residents' quality of life. The provision of good quality street lighting is a key contributor to reducing crime. An important feature of the street lighting replacement programme would be the provision (on all replaced and additional lighting columns) of fitments which would enable CCTV cameras e.g. 'Domehawks' to be rapidly deployed in response to community concerns or initiatives such as Active Intelligence Mapping. Furthermore, white light (a feature of the replacement street lights) has a colour rendition which significantly improves the quality and reliability of CCTV imaging.

Health and safety issues are an integral part of the development and implementation of any contract, and a Health and Safety Plan would be produced during the development of the PFI.

Legally, the Council, as the local highway authority, is under a duty to maintain the City's adopted highway infrastructure (excluding trunk roads). Where a lighting column or illuminated traffic sign or bollard is out of repair and this causes personal injury or damage to vehicles, the Council may be liable to pay compensation.

The implementation of a PFI lighting replacement programme and the replacement of around 74 per cent of existing lighting stock (23,000 columns) within the first five years will reduce the risk of claims resulting from poor lighting levels and their links to traffic accidents and pavement and carriageway-related trip and damage claims.

An initial analysis of the risks inherent in the PFI project has been undertaken as part of the development of the EOI. Risk is allocated in accordance with this analysis and the guidance given by the Council's advisors. A detailed strategy for allocating risks and the management of retained residual risks will be developed at Outline Business Case (OBC) stage.

The Council's advisors have undertaken Accounting Treatments for a number of street lighting PFI projects and have indicated that the project is to be procured in line with the requirements of HM Treasury Private Finance Taskforce's Technical note No1 – How to Account for PFI Transactions (TTF TN1). The PFI Transaction will be structured such that a sufficient balance of risks is transferred to the service provider to enable the transaction to be treated as off balance sheet under the TTF TN1.

As regards trade union consultation, the report indicated that employees within the Street Lighting Section and their trade union representatives have been briefed on the proposals to pursue an EOI. Full consultation will take place with employees

and their trade union representatives should the EOI progress to the submission of an OBC and subsequent procurement.

In human resources terms, should the EOI be successful and the project progress through to procurement, the Council's street lighting workforce would transfer to the successful service provider. Any transfer of employees would be covered by the Transfer of Undertakings Protection of Employment (TUPE) Regulations and the necessary consultation, information and protocols provided under these regulations would be rigorously followed.

As regards monitoring, a small project group has been established utilising experience from across Council directorates and this group is co-ordinating the works required to complete the EOI. Should the EOI be successful, this group would be tasked with delivery of the project and would draw upon appropriate specialist external support to steer the project to completion. This team would report regularly to the Management Board, elected members and other stakeholders through a project board. The composition of the board would include the Director of Finance and ICT, the Director of City Services, the Head of Highway Services, the Head of Planning and Transportation and the Cabinet Member (City Services). The team would be supported by significant input from external technical, financial and legal consultants experienced in the procurement of street lighting PFIs who would be retained throughout the development of the project.

The Report indicated that the City Council recognised the importance of effective project management in achieving the required project outcomes and the successful delivery of the street lighting service improvements and the wider benefits that the scheme seeks to provide. Accordingly, it intended to follow the Gateway process, introduced into the local authority sector by the 4Ps, throughout the project development and procurement processes.

In terms of timescale and expected outcomes, a timetable for activities in a successful bid would require:

24 February 2006 - Final date for submission of 'Expression of Interest'

May 2006 - Decision and notification to successful local authorities

30 November 2006 - Final date for submission of Outline Business Case (OBC)

1 April 2008 - Commencement of Contract

Councillor Nellist asked for his opposition to be recorded in respect of the decision set out below and he outlined a range of grounds for that opposition, indicating that he would put forward the reasons in more detail at the meeting of the Council, also on the 21st February, 2006, to which the recommendation below would be submitted.

RESOLVED that the City Council be recommended to:-

- (1) Approve the submission of an Expression of Interest for approximately £63m of PFI credits in order to radically improve the quality and provision of street lighting throughout the City.**

- (2) Note the key issues required for successful delivery of the PFI as set out in paragraph 5.10 of the report submitted.**
- (3) Note that a further report will be submitted to the City Council seeking the approval of the Outline Business Case (OBC) at the appropriate time.**