
Report to

Cabinet
Council

21st February 2006

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Report of

Director of City Services and Director of Finance and ICT

Title

PFI Street Lighting - Submission of an Expression of Interest

1 Purpose of the Report

- 1.1 To seek Cabinet 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.

2 Recommendations

Cabinet is asked to recommend to Council at its meeting on 21st February 2006 to:

- 2.1 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.
- 2.2 Note the key issues required for successful delivery of the PFI as set out in paragraph 5.10 to this report.
- 2.3 Note that a further report will be brought to Council seeking the approval of the Outline Business Case (OBC) at the appropriate time.

3 Information/Background

- 3.1 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 24 February 2006.
- 3.2 The 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.
- 3.3 The PPR recognised the necessity to improve street lighting and made available £1.4m for lighting column replacement in 2005/06.

3.4 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 below:

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%

- 3.5 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% of columns were in a poor condition even where they are not life expired.

4 Proposal and Other Option(s) to be Considered

- 4.1 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.
- 4.2 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.
- 4.3 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.
- 4.4 The Council could however be guided by the technical survey referred to in para 3.5 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.
- 4.5 The PFI option is discussed in detail below.

5 PFI Option

- 5.1 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:

- to create a city where people feel safe and confident and no-one is disadvantaged by the neighbourhood in which they live; and
 - to actively promote equality so that people from different backgrounds have similar life opportunities.
- 5.2 Reducing crime and the fear of crime can improve the quality of life in our 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, reducing road deaths and injuries is also a priority for the Council.

- 5.3 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% and providing lighting in areas of the city which are currently unlit, eg, parks.
- 5.4 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.
- 5.5 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 PFI's. 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.
- 5.6 Officers have visited a number of other local authorities across the country with street lighting PFI's 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.
- 5.7 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.
- 5.8 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.
- 5.9 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 was successful, the Council would progress to the next stage of submitting an OBC.
- 5.10 Key issues in the successful delivery of a street lighting PFI would be:
- The transfer of the street lighting service including employees to a third party provider
 - Commitment to a 25 year contract (typically)
 - Approximately £63m of PFI credits
 - Commitment to provide funds to bridge the currently estimated annual affordability gap of £1.3m and meet the one-off project management costs of an estimated £0.5m
 - Formation of a Project Group with necessary specialist advisors to deliver the project
 - Replacement of 74% (23,000 columns) of the existing lighting stock within the first 5 years of contract

5.11 Should the EOI be successful and the project progresses 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.

6. Financial Implications

6.1 In the 2006/07 budget being proposed to Council on 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.

6.2 The Council's own finance staff and our 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.

6.3 Our 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.

6.4 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:

- 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;
- The Council will need to provide an additional revenue funding of £1.3m per annum, from 2008\09 onwards (the affordability gap).

6.5 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 £70k 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 £430k will need to be funded from within the Council's budget for 2007/08.

6.6 The Council's proposed medium term financial strategy to be presented to Council on 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 £0.5m.

6.7 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, 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.

6.8 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.

7. Other specific implications

	Implications (See below)	No Implications
Best Value	✓	
Children and Young People		✓
Comparable Benchmark Data	✓	
Corporate Parenting		✓
Coventry Community Plan	✓	
Crime and Disorder	✓	
Equal Opportunities		✓
Finance	✓	
Health and Safety	✓	
Human Resources	✓	
Human Rights Act		✓
Impact on Partner Organisations		✓
Information and Communications Technology		✓
Legal Implications	✓	
Neighbourhood Management	✓	
Property Implications		✓
Race Equality Scheme		✓
Risk Management	✓	
Sustainable Development		✓
Trade Union Consultation	✓	
Voluntary Sector – The Coventry Compact		✓

8. Neighbourhood Management

8.1 The implementation of a PFI contract, with 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.

9. Best Value

9.1 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.

10. Comparable Benchmark Data

10.1 There are a number of successful street lighting PFI contracts already in existence across the country and Coventry is required within its EOI to compare its stock condition against local authorities with similar lighting infrastructures.

11. Coventry Community Plan

11.1 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 enhancing the night time environment.

12. Crime and Disorder

12.1 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 eg '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.

13. Finance

13.1 The financial implications are set out in section out in section 6 of the report.

14. Health & Safety

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

15. Legal

15.1 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.

16. Risk Management

- 16.1 The implementation of a PFI lighting replacement programme and replacement of around 74% 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.
- 16.2 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 our advisors. A detailed strategy for allocating risks and the management of retained residual risks will be developed at Outline Business Case (OBC) stage.
- 16.3 Our 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.

17. Trade Union Consultation

- 17.1 Employees within the Street Lighting Section and their Trades 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.

18. Human Resources

- 18.1 Should the EOI be successful and the project progresses 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.

19. Monitoring

- 19.1 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.
- 19.2 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 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 PFI's who would be retained throughout the development of the project.

19.3 The City Council recognises 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 intends to follow the Gateway process, introduced into the local authority sector by the 4Ps, throughout the project development and procurement processes.

20. Timescale and expected outcomes

20.1 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

List of background papers

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Papers open to Public Inspection

Description of paper	Location
None	