



DERBY CITY COUNCIL

**COUNCIL CABINET  
1 AUGUST 2006**

**ITEM 18**

Cabinet Member for Planning and  
Transportation

**STREET LIGHTING PFI PROJECT: AFFORDABILITY AND  
FINANCIAL CLOSE**

**SUMMARY**

- 1.1 Negotiations on finalising commercial agreement between the Council and Connect Roads Derby Limited (Balfour Beatty) are now approaching a conclusion.
- 1.2 At the time of preparing this report, it is anticipated that signing of the contracts will take place on Wednesday 13 September 2006.
- 1.3 There are a comparatively small number of outstanding issues which will need to be resolved with Balfour Beatty to the Council's satisfaction before the contract is finally signed. Where appropriate, these are referred to in the report.
- 1.4 Subject to any issues raised at the meeting, I support the following recommendations.

**RECOMMENDATION**

- 2.1 That, the Director of Regeneration and Community and the Director of Resources and Housing are delegated to reach a commercial agreement with the Preferred Bidder based on a financial model described in paragraphs 1.3 to 1.6 of the officers' report, variable upwards only by the issues identified in paragraph 1.5 to 1.6 of the officers' report.
- 2.2 To note that a further report will be submitted to Cabinet seeking approval to enter into the Final Contract after consideration of the Final Business Case.
- 2.3 To note that the provisions and recommendations of this report are conditional on the success of the Council's bid for additional PFI Credits from the Department for Transport. Should that bid fail, a revised negotiation strategy would need to be considered alongside decisions on the energy budget.



DERBY CITY COUNCIL

**COUNCIL CABINET**  
**1 August 2006**

Report of the Corporate Director – Resources and Corporate Director -  
Regeneration and Community

## **STREET LIGHTING PFI PROJECT: AFFORDABILITY AND FINANCIAL CLOSE**

### **REASON FOR RECOMMENDATIONS**

- 3.1 Everything possible should be done to minimise the risk of delays in signing of the contract, in order to contain the Council's costs and help to ensure implementation of the Project in accordance with the Project Plan and Timetable.
- 3.2.1 The nature of this Project means that sustaining progress with implementation could be dependent upon seasonal and associated weather conditions. Any delays at this stage could therefore be compounded and extended in subsequent stages of the Project, thereby delaying the benefits to the residents of the City.



## **STREET LIGHTING PFI PROJECT: AFFORDABILITY AND FINANCIAL CLOSE**

### **SUPPORTING INFORMATION**

- 1.1 At the meeting of the Cabinet on 6 June 2006, a confidential report on the current progress in negotiations with the Preferred Bidder, Balfour Beatty, was presented indicating an affordability gap for the Project.
- 1.2 The strategy for dealing with the shortfall in funding was set out in the last report, but involved further negotiations with the Preferred Bidder to attempt to close the gap through reductions in cost and alterations to the scope of the project. As was stated in the last report, these reductions would be in addition to extensive savings already made in earlier negotiations over the contract. In addition, an application would be made for further PFI credits from the Department for Transport, DfT. This issue is covered in section 1.7.
- 1.3 As a result of extensive negotiations with Balfour Beatty, a number of changes have been proposed to the Project, which reduce costs still further. These include the following:
- Increase the anticipated life spans of some columns
  - Using twin arm column replacements rather than opposites on dual carriageways
  - Reducing the extent of Private Cable Network, PCN, replacement as a result of improved information on the extent of the issue and increased risk bearing by Balfour Beatty.
  - A reduction in the modelled number of lighting units of around 500, as these will be replaced by developments taking place in the City such as Connecting Derby, Westfield and Derby Riverlights. This does not reduce the number of columns in the contract, only the number actually replaced.
  - Confirmation that the scope of the contract includes the provision of lighting to off-highway areas on Council Estates.
- 1.4 The latest model takes into consideration the above, representing a total contract value of £145m which equates to approximately £67m in NPV terms.
- 1.5 A further issue to be agreed with Balfour Beatty is the determination of the number of hours that the lamps are 'in light' over an average year, and developing a risk sharing mechanism for hours in excess of this. The financial implications of this are included within the Confidential report elsewhere in the agenda. We will continue work towards an agreeable position.

- 1.6 The current position has been modelled using a 4.85% finance swap rate. A movement of +/- 0.1% in the interest rate will adjust the current position by approximately +/- £13,000 a year.
- 1.7 Council Cabinet agreed at its meeting on 6 June 2006 that an application be made for additional PFI credits relating to the additional costs that the Council would incur as a result of the PCN needing full replacement within the project.
- 1.8 This application has been made. If the application were to be approved in full, this would now provide a basis for concluding the commercial agreement.
- 1.9 The financial implications of these revisions and a further report on energy pricing is contained within a confidential report elsewhere in the agenda.
- 1.10 As the cost of energy is a risk to the project, the use of energy efficient lamps and innovative solutions to lighting problems has been a high priority in the design solution. Initiatives included in the project are detailed in Appendix 2.
- 1.11 In addition to the main contract, a further issue remains relating to the provision of additional temporary staffing for the client in the first five years of the contract. An additional clerk of works is required to help in the initial period, in addition to the remaining core client staff of 4.5 (FTE). It is proposed that this temporary funding will be met from the Council's reserves and are not included in any of the figures quoted above.

#### **OTHER OPTIONS CONSIDERED**

2. The other option would be not to sign the contract. Many of the expected benefits would obviously then not be realised.

<b>For more information contact:</b>	Officer: Martin Follows Tel: 715050 e-mail: martin.follows@derby.gov.uk
<b>Background papers:</b>	None
<b>List of appendices:</b>	Appendix 1 – Implications Appendix 2 – Energy and innovation considerations

<b>IMPLICATIONS</b>
---------------------

**Financial**

- 1. The Financial implications are included within the Private section of the Confidential report which includes commercial data for the Project.**

**Legal**

2. The Council is entering into the contract under powers contained in sections 2 – 5 Local Government Act 2000, Section 111 Local Government Act 1972, the Local Authorities (Contracting Out of Highway Functions) Order 1999 (made under the Deregulation and Contracting Out Act 1994) and section 97 Highways Act 1980.
- 2.2 The Council will be required to issue certificates to the contractor and its funder under the Local Government (Contracts) Act 1997 as to the powers relied upon by the Council. These certificates provide protection to the contractor and the funder in the event of a successful challenge that the Council has acted beyond its legal powers. The Council will be required to compensate the parties in accordance with the contractual provisions should such a situation arise. Regulations under the Act require the certificate to be signed by a Chief Officer and copies must be served on the Council's Monitoring Officer and external auditors. It is intended that these certificates will be signed by the Corporate Director of Resources and Housing.
- 2.3 The procurement has been carried out in accordance with EU procurement requirements.
- 2.4 As part of the Private Finance Initiative the procurement and contract documentation is subject to extensive guidance from and the requirements of central government. The contract documentation has been based on model documentation issued by government and any derogations from the model form will require approval. Experienced external legal advisers have been retained throughout the procurement process to act for the Council on the preparation and negotiation of the formal contract.

**Personnel**

3. A PFI procurement means the transfer of staff to the private sector, under TUPE arrangements. The staff affected by the transfer have been consulted during the process and their pension rights have been safeguarded by the Council's insistence on the Preferred Bidder getting Admitted Body Status to the LGPS  
The number of posts scheduled to transfer under TUPE is 13, comprising 12 at Stores Road, and one from the client based in Regeneration and Community. Of the 12 designated posts at Stores Road, one is currently vacant and there are no plans to fill it.

**Equalities impact**

4. The impact of the Project should benefit those living in areas being improved both in terms of the degree of lighting and the effect on crime levels.

**Corporate priorities**

5. The Project will help to support the Quality of Life in Derby's neighbourhoods and also help to deliver excellent services, performance and value for money.

### Energy and Innovation Considerations

Currently the majority of residential areas within the Authority are lit by low pressure sodium lamps. They are relatively large lamps so it is difficult to control the light direction effectively, and up to 18% of the light produced by the lamp goes upwards and is wasted, - causing light pollution (sky glow.) Low pressure sodium is a monochromatic light source, making colour definition virtually impossible and character recognition using CCTV camera very difficult.

The proposal under the PFI is that residential areas that are to be relit will be done so using the latest light source, which is called CosmoPolis. This is a white light and colour definition and character recognition are much improved when using this light source.

The CosmoPolis lamp is 22% more efficient than low pressure sodium lamps, and the improved efficiency of the new design of lanterns increases the overall efficiency per unit to over 30%. An important added advantage of using white light is that the new European lighting standard allows the relaxation of lighting levels if white light is utilised; this has a positive environmental impact as less energy will be consumed compared to a traditional lighting solution.

The optics within the CosmoPolis lanterns are adjustable, ensuring that the light can be directed where it is required, i.e. on the ground, and this helps to eliminate any sky glow.

The CosmoPolis lamp is controlled by electronic control gear; this ensures that the lamp life and reliability is maximised, whilst minimising the energy consumption.

It is possible to run the CosmoPolis lamp in a dimmed mode. This not only reduces energy consumption but more importantly it adds flexibility. In some areas of the City that have above average crime levels, it is proposed that the new lighting units will be installed to run in a dimmed mode. (Note: - This dimmed lighting level will be the same lighting level as that proposed for the rest of the city's residential areas.)

However if the Police or the Anti-Social Behaviour Team believe that there is increased criminal activity it will be possible to raise the lighting levels. Once the criminal activity has been displaced the lighting levels would revert back to the dimmed mode levels, thus ensuring that energy savings can be capitalised on when crime levels allow. In other words, energy is used to provide light where it is needed, when it is needed.

Finally, the CosmoPolis lamps are very small so there is less packaging and more can be transported in one vehicle. All of these benefits ensure that currently it is the most environmentally friendly light source available.