



Street Lighting PFI – Submission of Outline Business Case Addendum

RECOMMENDATION

- 1.1 To approve the submission of the Outline Business Case (OBC), subject to formal approval by the Board, and to apply to the DfT for additional PFI credits totalling £1.25 million.

SUPPORTING INFORMATION

- 2.1 Since the main report was prepared, more up to date information has come to light which impacts on the affordability of the proposed Street Lighting PFI (SLPFI) project.
- 2.2 Since the expression of interest (EoI) was submitted in July 2003, factors outside of the Council's control have led to an adverse affordability position. The cost of capital investment has risen above inflation, which means that the PFI credit awarded in December 2003 is now insufficient to maintain the affordability gap at the predicted levels in the EoI. Additionally, the interest rate used in the PFI special grant calculation has also been reduced by the government, which reduces the resources available to fund the project.
- 2.3 The cost of capital investment, primarily the price of steel has increased materially over the last 12 months. This, together with the lower amount receivable in special revenue grant stream, has led to an increase in the affordability gap from £407k to £539k (at 04/05 prices). An additional credit is required amounting to £1.25 million to compensate for the unexpected capital cost increases. If this were successfully sought from The DfT, an affordability gap of £469k (at 04/05 prices) would result. This is higher than originally expected primarily due to the reduced revenue grant.
- 2.4 It is proposed that the OBC is submitted reflecting the latest financial information, but that the Council commences discussions immediately with the DfT with the view to seeking an additional £1.25m PFI credits on the grounds outlined above.
- 2.5 Any gap resulting from the reduced level of special grant will have to be borne by the Council or as part of the competition process at bidder stage.
- 2.6 Due to the factors outlined above, it has not been possible to circulate a copy of the OBC in advance. However, the Chair and Cabinet Member for Planning, Transportation and Environment have viewed and approved the draft OBC. The

Executive Summary of the draft OBC is attached as an Appendix to this Addendum. A copy of the OBC will be available on the web site, (www.derby.gov.uk/Hires/Living/streetlighting/streetlightingOBC.htm) once it has been finalised.

STREET LIGHTING PFI PROJECT OUTLINE BUSINESS CASE - EXECUTIVE SUMMARY

In December 2003 the Department for Transport (DfT) accepted an Expression of Interest submitted by the Derby City Council for a Private Finance Initiative (PFI) project to improve street lighting throughout the city and invited the submission of an Outline Business Case (OBC) with a view to securing Project Review Group (PRG) approval for PFI project procurement. This document presents the Council's detailed project proposals to further support the case for procuring street lighting improvements through the Private Finance Initiative and for delivering the community benefits, which the project will be designed to achieve.

Derby City Council is committed to the proposed Street Lighting PFI. The project is included in the Council's Corporate Plan based on its Vision *"to build on Derby's heritage and skills to make it a modern city that attracts businesses and visitors and where everyone can live safely and harmoniously and achieve their full potential"*.

The scope and detail of the proposed project has been carefully developed following evaluation of a range of project investment and procurement options examined to ensure it aligns with Council strategies and priorities and meets well defined and clear project objectives. The project has been structured to ensure that the Council receives the full benefit of the infrastructure improvements built and maintained by the private sector using their expertise to deliver high quality value for money services. In this way the project is designed to deliver effective, efficient, value for money services with in-built innovation and improvement enabling the Authority to fulfil its statutory duties under Best Value legislation.

Case for Investment and PFI Procurement

Derby has a strong case for PFI procurement to improve street lighting infrastructure and services:

Of a total of 25,792 lighting columns, 19,223 (approximately 75%) are failing concrete columns or mild steel units which pre-date modern galvanising processes and are in need of urgent replacement. Currently lighting in over 80% of city streets falls significantly short of current standards laid down in BS EN 13201 and an estimated 5,611 additional columns will need to be installed in the next five years to achieve modern lighting standards.

Over 80% of the City's 2,107 illuminated traffic signs and beacons are in poor condition and need replacing to improve road safety and wayfinding.

Local surveys and opinion polls confirm residents concerns about crime and fear of crime and the perceived contribution of better street lighting towards improving community safety. Improved lighting, together with increased use of CCTV (which relies on good lighting) has a proven track record in reducing crime and fear of crime.

Potential Options

The Council has examined a number of options to improve the contribution street lighting and illuminated signs makes to key corporate strategies and objectives. In carrying out this work the Council undertook an analysis of the following investment options:

1. Do Nothing,
2. Do Minimum,
3. Steady State Replacement,
4. Fast Track Replacement, and
5. Full Stock Replacement.

Each of these options was developed in the context of public sector based estimates and the benefits were calculated using relevant Department for Transport (DfT) and 4ps guidance.

Preferred Solution

The detailed options appraisal undertaken as part of this OBC indicates that Option 4, Fast Track Replacement appears to be the most effective and attractive solution as it achieves the highest Cost Benefit Ratio (CBR). The Net Present Value (NPV) of the economic benefits from reductions in crime and road traffic accidents is £79.28m.

Funding of the Preferred Option

Having identified a preferred investment option, the Council evaluated different financing options to seek to identify the optimum procurement route to achieve project delivery. The Council looked at financing the project through the following routes:

- Prudential Borrowing;
- Capital receipts,
- Revenue, and
- The Private Finance Initiative

Following this appraisal process, the Council identified that the PFI DBFO approach is the only route that would deliver our objectives and best value for money. However, this preferred option can only proceed with additional resources equivalent to £0.7m per year to ensure that the project is stable and affordable.

PFI Credits and Affordability

PFI credits of £32.47m have been awarded to Derby for this scheme as a result of the Expression of Interest. This was based on information correct at the time of submission in July 2003, which, together with an additional potential annual contribution of approximately £0.4m from the Council, was considered sufficient to make the scheme affordable.

However, certain factors, outside of the Council's control, have changed in the last 12 months, and have led to a potential further affordability gap. Based on the latest knowledge of these factors, and latest market intelligence, the potential PFI credit support for the proposed scheme at Derby has been re-calculated at £33.7 million. The Council has modelled the affordability of the PFI project based on this, and also the original level of credit support.

Output Specification and Key Contract Terms

The headline issues to be addressed in the Output Specification have been examined and work is well under way in identifying the Council's requirements. The Council intends to procure the service in line with the latest guidance available from the DfT. 4ps and HM Treasury to make use of the experience of other local authorities who have successfully procured this type of street lighting and illuminated signage service.

In particular, the Council intends to utilise the latest 4ps Street Lighting Procurement Pack to ensure an efficient and effective procurement process. The Council also intends to participate in the 4ps Street Lighting Forum to ensure it is up to date with the latest market developments and can fully benefit from and contribute to best practice advice in this area.

Project Management and Delivery

The Council is committed to efficient project implementation and has put in place the resources and personnel to take the work forward in line with the programme set out over the page. The project management structure has been established as detailed in Chapter 9 based on arrangements which have proved effective in reaching Preferred Bidder stage on the Council's PFI Schools project. Also, expert Financial, Technical and Legal consultants have been appointed following a competitive process to supplement the Council's in-house resources and ensure timely and effective delivery of project procurement in line with the timetable.