



DERBY CITY COUNCIL

## COUNCIL CABINET 24 FEBRUARY 2004

Report of the Director of Development and Cultural Services and  
Director of Finance

### Private Finance Initiative (Pfi) Street Lighting – Project Development

#### RECOMMENDATION

- 1.1 That following the approval of the Expression of Interest by the Department for Transport (DfT), the Council should now proceed to the next stages of developing the project.
- 1.2 That the Council authorise the Director of Finance to release resources required to progress the project to Outline Business Case stage, from the Council's Modernisation Fund up to an initial limit of £175,000, and to earmark a total of £500,000 for the project development, subject to the regular reporting back to cabinet as funds are required.
- 1.3 That the staffing implications of proceeding to the next stages be addressed through a combination of arrangements involving existing Council staff and/or external appointments and consultancy
- 1.4 That the project management arrangements are approved
- 1.5 That a further report be submitted to the cabinet seeking approval for the submission of the Outline Business Case.

#### REASON FOR RECOMMENDATION

- 2.1 The PFI process is becoming increasingly competitive. The Council's bid is one of only six bids approved by DfT in the last bidding round. Should the Council not proceed in this, there can be no guarantees that any subsequent bids would be approved.
- 2.2 Although a certain level of expertise has been acquired as a result of previous and existing projects, the Council does not have sufficient existing capacity to undertake all the tasks, and additional staffing and consultancy support is needed
- 2.3 The demands of delivering a successful PFI project require a combination of local knowledge and expertise, with highly specialised technical, legal and financial inputs at various stages. A formalized project management structure, based on established project management techniques, will provide the best method of delivering the project.
- 2.4 The Council's Modernisation Fund is an appropriate source from which to fund activities such as the PFI, which can be regarded as an innovative, developmental approach to procurement. The implications of developing the project, and the potential

benefits of successful delivery, extend beyond the Street Lighting Service across the Council as a whole.

## **SUPPORTING INFORMATION**

- 3.1 Following the meeting of the Cabinet on 24 June 2003, approval was given to submit an Expression of Interest for a Street Lighting PFI to DfT.
- 3.2 As Members will already be aware, the DfT announced on 19 December 2003 that the Council's bid for £32.47m of PFI credits has been approved in full.
- 3.3 The bid, as submitted, proposes the replacement of 76% of the current street lighting columns over a 5 year period, improvement to service levels and maintenance of the infrastructure at that level for the period of the contract (25 years).
- 3.4 The Council now needs to move forward to the next stage of the process, the preparation of the Outline Business Case (OBC). A copy of the provisional project timetable as included in the Expression of Interest, is attached as Appendix 2.
- 3.5 The fact that DfT approved so few Expressions of Interest in December indicates that the prospects of the scheme gaining full approval are much enhanced, and it therefore needs to be managed and resourced on the basis that it is likely to move forward beyond OBC stage fairly quickly.
- 3.6 The OBC will be a comprehensive and detailed analysis of the proposed scheme. Advice and support from external consultants will be required to assist in its preparation. Support will be also provided by the Public Private Partnership Programme (4Ps), the body set up to assist local authorities to deliver PFI projects.
- 3.7 Advice from 4Ps stresses that investment in the lighting infrastructure should not decrease during the PFI process. Indeed there are benefits to be gained from continuing investment, in that the number of columns requiring replacement during the first five years will be reduced, with a consequential reduction in the unitary charge over the period of the scheme and potential reduction in affordability gap.
- 3.8 Arrangements are also to be put in place to manage the delivery of the project. Based on previous PFI schemes and DfT advice, these will include:
  - a Project Board to take overall responsibility for delivery and management of the scheme, which will bring regular reports to Members
  - arrangements for involving stakeholders and trades unions in the development of the project.
  - a multi-disciplinary project team consisting of representatives from Technical, Legal and Financial disciplines.
  - a copy of the proposed project management structure is enclosed at Appendix 3.
- 3.9 The joint trades unions representative has indicated that she is satisfied that the Unions will have the opportunity of expressing their views during the project.

## OTHER OPTIONS CONSIDERED

- 4.1 To deploy only the Council's existing staffing resources to develop and support the project
- 4.2 To establish new posts across the Council dedicated to the project
- 4.3 To engage external consultancy to undertake the necessary tasks

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<b>Background papers:</b>	Street Lighting PFI – Expression of Interest. Derby City Council July 2003
<b>List of appendices:</b>	Appendix 1 – Implications Appendix 2 – Project Timetable Appendix 3 – Project Management Structure

## IMPLICATIONS

### Financial

#### Scheme Costs

- 1.1 The overall profile of the financial arrangements of the scheme is set out in the Expression of Interest, and has been regarded by DfT as sufficient to warrant approval. The profile was reported to Cabinet at the meeting on 24 June 2003.
- 1.2 The potential for a funding gap between Government allocations and actual costs was identified to Cabinet at its meeting on 5 August 2003. The preparation of the OBC will allow greater clarity over the scale of any gap.

#### Project Development Costs

- 1.3 The next stages of the process will require additional and dedicated staffing support, as outlined in the Personnel Implications.
- 1.4 It is difficult at this stage to give a precise and definitive costs of such support, since these will be determined by the nature of any internal arrangements the Council is able to secure through specific secondments and/or backfill arrangements, and the outcome of discussions with consultancy organisations. However, as a guide, the DfT and 4Ps have given a clear indication that they would expect project development costs for a PFI scheme of this size to lie within the £500,000 to £750,000 range. Based on experience of other authorities, and taking into account costs incurred on other projects, it is felt that a budget of £500,000 should be sufficient for a project of this scale and complexity.
- 1.5 It is proposed that funds for project development be found from the Councils Modernisation Fund.
- 1.6 To allow work to progress therefore, it is suggested that an amount of £500,000 is earmarked, with an initial advance of £175,000 from the fund to allow:
  - direct staff appointments and/or backfill arrangements
  - external consultancy arrangements in support of the OBC and subsequent project development to be made
  - internal and external support of the final procurement and contract finalisation stages, and secondment/backfill arrangements as necessary
  - survey and database work to be carried out in order to validate the accuracy of the lighting inventory. This work is considered to be a vital element of the project development by both 4Ps and DfT.
- 1.7 Depending on the staffing arrangements needed, the Director of Finance should be authorised to commit funds up to an initial limit of £175,000 to allow the scheme to

progress to OBC stage. Further advances from the overall earmarked limit of £500,000 will be subject to the regular reporting back to Cabinet of the progress of the project.

## **Legal**

- 2 There are no direct legal implications arising from this report. However, should the proposals succeed, particularly beyond approval of the OBC, there will be a need to secure specialised legal advice in order to ensure that the Council is fully and regularly appraised of the legal implications.

## **Personnel**

- 3.1 The number of Council employees likely to be affected by the PFI will be determined in particular by the detail of the OBC.
- 3.2 A PFI procurement often means the transfer of most staff to the private sector. However, it is understood this is not inevitable. It is therefore proposed that options for retaining an in house maintenance function be investigated.
- 3.3 The 4P Guidance Note has indicated that it may be possible to avoid such a transfer in some circumstances:
  - part of the package of services originally considered to be within the scope of the PFI may subsequently be excluded, provided that the best value case for keeping the services can be demonstrated. In this case the staff would remain employed by the authority
  - in a more limited set of circumstances, a particular service might remain part of the PFI contract, but if it can be demonstrated that best value can be delivered by the DSO, then the DSO would compete to become a sub-contractor to the private sector service supplier, subject to the private sector provider being designated as a 'public body' under the Local Authorities (Goods and Services) Act 1970.
- 3.4 Should this not be possible, a PFI procurement could result in the possible transfer under TUPE regulations on some of the 13 current employees and 6 vehicles. However, the Council would then seek to ensure that Government proposals on workforce matters, to ensure that all new staff are offered pay and conditions "no less favourable" than transferred employees, and that new staff are offered reasonable pension arrangements, would be enforced.
- 3.5 The immediate priority is to secure the additional and dedicated staffing support that is required to take the process through to the next stages. There is currently only very limited capacity that could be allocated to this work.
- 3.6 A number of headline tasks have been identified in the provisional project timetable at Appendix 2, and the next task is the preparation of the OBC.
- 3.7 The support required to complete the project has been identified as follows:
  - Project Management. Required full time for the duration of the project, up to 2005-06. This will be provided by the secondment of the Project Manager from

D&CS, who was jointly responsible for the preparation of the successful Expression of Interest. Additionally, the team currently project managing the Grouped Schools PFI Project will provide advice and assistance on the PFI process during the lifetime of the scheme.

- Administration. This will be provided by the existing Schools PFI team.

- 3.8 Additionally there will need to be comparatively short, but intensive, inputs from a 108 number of Council departments as the project moves forward. At the moment it is not possible to quantify the nature or level of these inputs, but they are likely to be most pronounced in Corporate Services, Finance and Development and Cultural Services.
- 3.9 External consultancy advice will be needed to assist with the preparation of the OBC and subsequent project development. Technical and financial advice is particularly important from the outset, whilst it is felt that legal advice is more important once the OBC has been prepared.
- 3.10 Although internal secondment has been identified to cover some roles identified in 3.7 above, it will be necessary to backfill positions to ensure continuity of service delivery in the departments concerned.

### **Corporate Themes and Priorities**

- 4.1 The maintenance and improvement of street lighting satisfies the Council's Key Themes of making Derby - **A Great Place to Live and Safer Communities**.
- 4.2 It also satisfies the City Council's priorities of - **Improving The Physical Environment Of Our City And Streets and Reducing Crime and the Fear of Crime**.
- 4.3 The Council's **Value for Money** theme is satisfied as part of the PFI project approval process.

**Proposed Timetable: Project Approval and Procurement****Appendix 2**

Stage	Target Date
Expression of Interest submission	July 03
OBC submission	April 04
OBC approval	June 04
OJEC Notice Publication	August 04
Issue Information Memorandum/PQQ/ISOP	September 04
Return of PQQ/ISOP	October 04
First Stage Short-list	November 04
Issue Invitation to Negotiate	November 04
Submission of Bids	January 05
Short-list for BAFO	February 05
Issue BAFO Invitation	February 05
BAFO Submission	May 05
Appointment of Preferred Bidder	May 05
Award of Contract	October 05
Contract Start Date	April 06

