
Appendix 1: Implications Street Lighting PFI Frequently Asked Questions

What is PFI?

Private Finance Initiative is where the responsibility for street lighting and traffic signs maintenance and design will transfer from the Council to a private sector operator, known as the Public Service Provider for 25 years. The Council would then pay an annual unitary charge to the contractor for the duration of the contract in exchange for the provision of the street lighting service, and would receive a contribution from DfT to support this in the form of PFI credits.

When did we submit our Expression of Interest?

We submitted our Expression of Interest to the Department for Transport (DfT) in early December.

Why did we submit an Expression of Interest?

The Government opened up the opportunity for all Councils to bid for a share of the £440M it was making available under what is widely anticipated to be the last round of Street Lighting PFI schemes. We were interested in investigating the feasibility of a Street Lighting PFI as this would bring significant financial investment into our area in the current economic climate whilst creating additional jobs and providing sustained employment for our workforce.

What happened with the Expression of Interest?

The DfT have now approved our Expression of Interest and have allocated £125.47M of PFI credits to Durham and Stockton Councils. They now wish us to further develop this into an Outline Business Case.

What are PFI Credits?

PFI Credit is funding paid to a Council by the Government to offset the unitary charge / contract payment to the external private contractor during the life of the contract. The credit is calculated to cover the capital financing costs of the major investment that takes place in the first 5 years of a PFI street lighting contract.

What happens next?

We will seek approval from Cabinet to proceed before developing an Outline Business Case (OBC). We will aim to develop and submit an Outline Business Case by June or September 2010 (to be confirmed). If this is approved by DfT and Cabinet then we will then move into the Procurement phase which will last until summer of 2012 until award of contract. It is envisaged that the start of the new contract would be late 2012 or early 2013.

Throughout the process we will assess the financial viability and Value for Money of progressing this work. The submission of the OBC will also be subject to Cabinet approval.

If we were to proceed through to implementation what would be the benefits to Stockton Council?

The PFI will provide a substantial increase in capital investment to raise standards of street lighting across the Borough in a large scale intensive replacement programme across a five year period. Other benefits would be the ability to make substantial reductions in carbon emissions in line with our Carbon Reduction Commitment and to make energy savings.

Value for Money will be a key benefit and this will be established once the OBC has been completed. Local Authorities are monitored by external audit and therefore have to establish Value for Money regarding an initiative such as PFI.

Why are we working with Durham County Council?

As part of a regional focus, it was appropriate to link up with Durham and prepare a joint bid. By linking up with Durham, Stockton achieves efficiency through the procurement process by sharing

expenditure related to the development, procurement and contract management costs. We also discussed the potential of a joint bid with other Councils in the region, namely Gateshead and Darlington.

What are the staffing implications?

Generally employees currently allocating 51% of their time to lighting and traffic signs will be expected to transfer to the Public Service Provider.

Employees meeting the above rule would transfer under TUPE to the Service Provider. They would transfer under their current terms and conditions and any changes to these would be negotiated with the Service Provider. As part of the procurement process we would assess the Service Providers commitment to TUPE.

The current length of service that a member of staff has would continue.

The Service Provider will be required to provide a broadly comparable pension scheme or seek Admitted Body Status which would allow staff to remain within the Local Government Pension Scheme.

Will there be additional jobs?

Yes the levels of staffing are likely to increase especially through the Core Investment Programme due to the levels of activity and renewal of street lighting. However, the maintenance contract will run for a further 20 year and there may be a reduction in employee numbers on completion of the CIP.

What is the CIP?

The CIP is the Core Investment Programme. This is the period of 5 years where lighting and signs that are considered to be obsolete are replaced at the beginning of the PFI contract.

Approximately how many units will be replaced in the CIP?

Approximately 123,000 lighting columns and traffic signs will be replaced over the life of the contract.

Will it assist the Council in achieving their CO₂ and energy reduction targets?

Yes, it will make a significant contribution. The Council is committed to reducing its impact on the environment and has set itself challenging targets for the reduction in CO₂. We also have an obligation to comply with the Carbon Management Act and make reductions on the baseline emissions of street lighting as part of the Carbon Reduction Commitment.

The street lighting stock is currently responsible for around 19,000 tonnes of CO₂ which equates to 18% of the total Council emissions and this will require over £228,000 of carbon credits. Carbon credits are a tax to be introduced in April 2011, to incentivise businesses and the public sector to improve the energy efficiency of their operations.

All replacement street lighting units will be Centrally Managed to reduce energy and CO₂ accordingly. Within the EOI we have focused on reducing CO₂ by 40%. The PFI will enable us to meet the targets set.

What will happen at the end of the 25 years contract?

Responsibility for maintaining the street lighting and traffic signs will be handed back to the respective Councils. The stock will have an anticipated life beyond the 25 year contract period.

What will be the cost to SBC?

Costs for the development of the OBC are likely to be in the region of £200-300K based on the need to have professional legal, financial and technical advice throughout the procurement process. A significant element of these costs will cover surveys and the production of detailed inventory records, required if we proceed to the procurement phase following approval of the OBC.

These costs will be shared with Durham County Council. Procuring jointly enables savings in these costs to be made which benefits both Authorities. Further costs through to implementation are to be established.

How can Elected Members contribute?

In due course we will hold a Members Seminar to enable all Members to fully understand the PFI process.

Who do I contact if I need more information?

Should you require further information please contact Brian Buckley, Highway Network Manager on 01642 526703.