

CABINET RESPONSE TO : MEMBER LED REVIEW – STREET LIGHTING PFI

To: **Cabinet**

Date: **15 March 2011**

From: **Acting Executive Director : Environment Services**

Electoral division(s): **All**

Forward Plan ref: **Not applicable** *Key decision:* **No**

Purpose: **To consider the Member Led Review on Street Lighting PFI**

Recommendation:

i) To thank Scrutiny for producing a valuable and detailed report.

ii) To approve the proposed response to the Member Led Review on Street Lighting PFI

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1. BACKGROUND

- 1.1 The Member-Led Review by the Environment and Sustainability Scrutiny Committee into Street Lighting PFI has produced a report which contained three recommendations for consideration by Cabinet.
- 1.2 Cabinet would like to thank Scrutiny for producing the report and seeking the views of officers and members during the study.
- 1.3 The report is comprehensive and detailed, and is welcomed by Cabinet and officers.

2. RESPONSE TO RECOMMENDATIONS

The proposed Cabinet responses to the recommendations of the Member Led Review are set out below.

- 2.1 Recommendations and responses:

RECOMMENDATION 1 – STREET LIGHTING POLICY

The Cabinet should review and determine whether any changes are required to the Council's street lighting policy prior to the formal agreement of the Street Lighting PFI contract with the service provider

Response:

Noted - A review of the street lighting policy took place in late 2010, and as a result a revised street lighting policy was discussed by Growth and Environment Policy Development Group at its meeting on 18 January 2011; this proposes a reduction of about 11% of street lighting inventory.

The contract has a Change Protocol and at any time the Council can make changes to its street lighting policy from that agreed at financial close.

RECOMMENDATION 2 – INFLATION

The Cabinet should commission the Council's Internal Audit function to assess whether the inflation assumptions within the PFI contract are prudent and reasonable given current information and inflationary projections.

Response:

Cabinet does not see the need to commission Internal Audit to assess whether the inflation assumptions are prudent because the Council has employed PriceWaterhouseCoopers as financial advisors for the project who have supported the Council in all the financial modelling. They use a standard Treasury approved model which has built in inflation percentages of 2.5% for both work costs and energy.

The inflation index within the PFI contract is Retail Price Index excluding mortgages and is consistent with all other PFI projects. For the Council to move away from this

inflation index, would require derogations from standard to be accepted by Treasury with no certainty that any application would be approved.

This approach is consistent with all other PFI projects and provides the council with a good representation of likely council contributions, especially in the first few years.

RECOMMENDATION 3 – USE OF SURPLUS INCOME

Temporary surplus income should be ring fenced throughout the duration of the contract so that it can be used to make up shortfalls in the unitary charge to the service provider towards the end of the contract.

Response:

The Council has moved away from the sinking fund approach (ring fencing), as part of the final funding model. Instead the council will provide differential funding for each year of the Street Lighting PFI to meet the expected budget needs in that year. This is a consistent approach to that used on the Waste PFI. This will have the benefit of reducing the cost in the initial years, while the Council is experiencing unprecedented cuts in public services.

| Source Documents | Location |
|--|-----------------------------|
| IOM Business plan Pathfinder, good practice IOM documents | CCC Community Safety office |